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Canada. Royal commission on banking and finance
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1964



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Royal Commission on Banking and Finance

BROKER-DEALERS' ASSOCIATION OF ONTARIO

Hearings
held at

OTTAWA

Vol.

57

Date.

November 1, 1962.



Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.



Nethercut & Young

Toronto, Ontario

- 7170 -

Ottawa, Ontario,
Thursday,
November 1, 1962.

ROYAL COMMISSION ON BANKING

--- At 9.10 A.M. the hearing resumed.

AND FINANCE

SUBMISSION OF

Hearings held at Ottawa,
Ontario, on Thursday,
November 1, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

* Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W. A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

MR. LATIMER: Yes.

THE CHAIRMAN: I suppose other members who

Mr. H. A. Hampson answer questions from Secretary

Mr. Gilles Mercure - Joint Secretary

* Absent

THE COMMISSIONER: Do you propose to make a



Nethercut & Young

Toronto, Ontario

- 7171 -

Ottawa, Ontario,
Thursday,
November 1, 1962.

--- At 9.10 A.M. the hearing resumed.

SUBMISSION OF

THE BROKER-DEALERS' ASSOCIATION OF ONTARIO

APPEARANCES

W. D. Latimer	- Chairman, Broker-Dealers' Association of Ontario
James W. Gemmell	- Senior Solicitor for the Broker-Dealers' Association of Ontario
Malcolm Moysey	- Senior Member of the Board of the Broker-Dealers' Association of Ontario
Michael Gee	- Solicitor, Broker-Dealers' Association of Ontario

THE CHAIRMAN: We shall now consider the submission of the Broker-Dealers' Association of Ontario. Mr. Latimer, you are representing the spokesmen for the Association?

MR. LATIMER: Yes.

THE CHAIRMAN: I suppose other members who are with you may answer questions from time to time if they so desire?

MR. LATIMER: Yes.

THE COMMISSIONER: Do you propose to make a



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22. The twenty-second of the

23. The twenty-third of the

24. The twenty-fourth of the



1 preliminary statement or do you wish us to proceed
2 immediately?

3 MR. LATIMER: I was going to introduce the
4 group here and then we will carry on.

5 THE CHAIRMAN: All right, you may proceed.

6 MR. LATIMER: Mr. Chairman and Commissioners,
7 Mr. Gemmell on my left, Senior Solicitor for the B.D.A.;
8 on my immediate left Mr. Malcolm Moysey, Senior Member
9 of our Board, myself, W. D. Latimer, and on my right
10 Mr. Gee, Solicitor for the B.D.A.

11 THE CHAIRMAN: Thank you. There is nothing
12 further you wish to say at the outset?

13 MR. LATIMER: I do not believe so, sir.

14 THE CHAIRMAN: I understand that it is a
15 policy of the Securities Commission to request any
16 applicant for registration as a broker-dealer first
17 to apply for membership in the Association. Is the
18 Association satisfied with this responsibility?

19 MR. LATIMER: Quite so.

20 THE CHAIRMAN: You think this works out in
21 the interest of the members of the Association?

22 MR. LATIMER: I believe I am speaking for the
23 entire body in saying yes, the responsibility that we
24 have in this regard is quite in order. I am quite sure
25 that the rest of the gentlemen will say yes to your
26 question.

27 THE CHAIRMAN: Can you give us some idea
28 as to the sort of responsibility you discharge with
29 respect to this responsibility over your membership?

30 MR. LATIMER: When a party comes up for regis-



MR. LATIMER: I was going to introduce the

group here and then we will carry on.

THE CHAIRMAN: All right, you may proceed.

MR. LATIMER: Mr. Chairman and Members,

Mr. Gemmell on my left, Section Solicitor for the B.D.A.

of our Board, myself, W. L. Latimer, and on my right

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THE CHAIRMAN: Thank you. There is nothing

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entire body in saying yes. The responsibility that we
have in this regard is quite in order. I am quite sure
that the rest of the gentleman will say yes to you.

THE CHAIRMAN: Can you give us some idea

as to the sort of responsibility you discharge with
respect to this responsibility over your members?

MR. LATIMER: When a party comes up for registra-



1 tration we send out letters to all our other members
2 and request information pertaining to the proposed
3 registrant, and we wait a number of days and then carry
4 on at a board meeting, and practically always we have
5 the registrant at one of our B.D.A. meetings for
6 questioning. Does that not cover it?

7 MR. MOYSEY: That is correct.

8 THE CHAIRMAN: What are the qualifications
9 for membership?

10 MR. LATIMER: Mr. Gemmell, would you deal
11 with that?

12 MR. GEMMELL: Generally, sir, the Board will
13 not entertain an application for membership unless a
14 person has been registered to trade in securities
15 for at least two years. . It is not automatic, but
16 they will not entertain an application at all unless
17 that initial qualification is complied with, aside
18 from their general regarded/^{and}reputation within the
19 community so far as is known to the members of the board.
20 Those are the factors they consider.

21 MR. MOYSEY: Might I add that there are
22 certain requirements which you might point out, as
23 you know, in respect of a criminal record and so on?
24 That might be of interest on the record, I think.

25 THE CHAIRMAN: Yes, I think we should have
26 that.

27 MR. GEMMELL: This is quite lengthy, gentlemen,
28 these aspects of it.

29 MR. MOYSEY: If you give that to the court
30 recorder afterwards it will save him a lot of trouble.



tion we send out letters to all our other members
and request information pertaining to the proposed
registration, and we wait a number of days and then carry
on as a board meeting, and practically always we have
the registration at one of our board meetings for
practicing. Does that not cover it?
MR. MURPHY: That is correct.
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with that?
MR. CHAIRMAN: Generally six, the board will
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from their general registration within the
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MR. MURPHY: Would I add that there are
certain requirements when you meet your own, and
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THE CHAIRMAN: Yes, I think we should have
these aspects of it.
MR. MURPHY: It was given that to the board
reconsider afterwards it will send him a lot of trouble.



1 MR. GEMMELL: This is long and somewhat
2 detailed, but I can read it if it is the wish of the
3 Commission.

4 COMMISSIONER BROWN: Let us have the important
5 point. Do not give it to us verbatim, but in principle.

6 MR. GEMMELL: Anyone who has been convicted
7 of any material criminal offence within the past
8 fifteen years will not be considered by the Board.
9 The Board will also inquire personally during an inter-
10 view, as Mr. Latimer has indicated, as to the applicant's
11 knowledge of the business. This is an informal
12 inquiry held by nine members of the Board convened to
13 question the applicant. There is no prescribed set
14 of questions. The applicant, of course, is required
15 to have certain financial qualifications which meet
16 the satisfaction of the Association.

17 THE CHAIRMAN: What are the financial
18 qualifications?

19 MR. GEMMELL: He must have at least \$5,000
20 working capital in the business and an additional
21 \$5,000 deposited in trust. The \$5,000 in trust
22 will only be released at the direction of the Board
23 of Governors. The purpose is that if any broker-
24 dealer -- fortunately there has not been too many --
25 finds himself in financial difficulty the \$5,000 in
26 trust ensures to some degree that any member of the
27 public -- not a trade creditor -- trading in securities
28 will have some protection if the Board sees fit.

29 MR. MOYSEY: How about knowledge of the Act?

30 MR. GEMMELL: Well, when the Board interviews



MR. CHAMBERLAIN: This is long and somewhat detailed, but I can read it if it is the wish of the

COMMISSIONER BROWN: Let us have the important point. Do not give it to be verified, but to indicate MR. CHAMBERLAIN: Anyone who has been convicted

of any material criminal offense within the past fifteen years will not be considered by the Board. The Board will also require personally during an interview, as Mr. Latham has indicated, as to the applicant's

knowledge of the industry. It is in my opinion actually held by some members of the Board concerned to question the applicant. There is no prescribed set of questions. The applicant, of course, is required to have certain financial qualifications which meet the satisfaction of the Association.

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MR. MOYER: How about knowledge of the law?

MR. CHAMBERLAIN: Well, when the Board interviews



1 the applicant at the Board meeting the various members
2 of the Board may ask questions as they see fit.

3 THE CHAIRMAN: The applicant is required
4 to be someone who has had some experience in the
5 business?

6 MR. GEMMELL: Yes, at least two years
7 registration, Mr. Chairman.

8 THE CHAIRMAN: Registered as what?

9 MR. GEMMELL: Registered to trade in
10 securities. Most of them are salesmen or people
11 who are registered as security salesmen.

12 THE CHAIRMAN: In any event the individual
13 should be fairly well known to the other people
14 in the business, is that not so?

15 MR. GEMMELL: Yes.

16 THE CHAIRMAN: So that when he comes before
17 your Board he will be known at least to some of the
18 members?

19 MR. GEMMELL: Yes, that is usually the
20 case. As Mr. Latimer pointed out, in the event
21 he is not known directly or indirectly, all members
22 of the Association are circulated with a synopsis of
23 the applicant, and this remains outstanding for seven
24 days, and comments and reports received are considered
25 by the Board and used when making their decision.

26 THE CHAIRMAN: Does the Securities Commission
27 also consider the application, or does it leave it
28 entirely to the Association?

29 MR. GEMMELL: Generally speaking the practice
30 seems to be that the applicant would concurrently



the applicant at the Board meeting and various members
of the Board may ask questions as they see fit.

THE CHAIRMAN: The applicant is required

to be someone who has had some experience in the

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MR. DENNIS: Yes, at least two years.

THE CHAIRMAN: Registered as what?

MR. DENNIS: Registered as a dealer in

securities. Most of them are salesmen or people

who are registered as security salesmen.

THE CHAIRMAN: Is any sort of individual

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THE CHAIRMAN: Does the Securities Commission

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MR. DENNIS: Generally speaking the practice

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1 submit an application for registration as a broker-
2 dealer to the Ontario Securities Commission at the
3 same time he makes application for membership in the
4 Association.

5 THE CHAIRMAN: Does the Securities Commission
6 investigate applicants independently do you know, or
7 do they rely on the Association in this regard?

8 MR. GEMMELL: My understanding is that the
9 Securities Commission makes inquiries of the references
10 and so on. I cannot answer that question thoroughly.
11 Certainly the Securities Commission will have a
12 record of the background of anyone who has been in
13 the securities business.

14 THE CHAIRMAN: Once an individual becomes
15 a member and becomes entitled to carry on as a broker-
16 dealer, he is entitled to underwrite and do everything
17 else required in promoting an issue and selling it?

18 MR. GEMMELL: Yes.

19 THE CHAIRMAN: He is entitled to make a market?

20 MR. GEMMELL: Yes.

21 THE CHAIRMAN: He is entitled to trade as
22 far as may be necessary to make a market and everything
23 of that type?

24 MR. GEMMELL: Yes.

25 THE CHAIRMAN: So that he may be dealing
26 with pretty large sums of money?

27 MR. GEMMELL: He could be. I think it is
28 safe to say that initially, by the nature of the
29 business, very few people starting business as a broker-
30 dealer will deal in exceptionally large amounts of capital.



submit an application for registration as a promoter
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same time he makes application for membership in the
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THE CHAIRMAN: Does the Securities Commission

investigate applicants independently do you know or

do they rely on the Association in this regard?

MR. CHAIRMAN: My understanding is that the

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and also of the character of the person.

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record of the background of anyone who has been in

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THE CHAIRMAN: Does an individual become

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business, very few people starting business as a broker

dealer will deal in exceptionally large amounts of capital.



1 I know of no instance where anyone has started off
2 with a large amount of capital.

3 The current practice seems to be that a
4 broker-dealer will associate himself, or hope to make
5 some arrangement with a promoter who may or may not
6 be registered, and then act as an agent for that
7 person. He will receive a commission. In this
8 situation that individual is not obligated or required
9 to have capital necessary to finance or underwrite an
10 issue himself. Usually new individuals commence
11 business in that fashion.

12 THE CHAIRMAN: Well, when a member decides
13 to underwrite an issue making a firm commitment for
14 a certain portion of shares involved, that might be
15 a fairly large undertaking?

16 MR. MOYSEY: But he will not do this on
17 his own behalf as a rule.

18 THE CHAIRMAN: He does not?

19 MR. MOYSEY: Not as a rule, no.

20 THE CHAIRMAN: This I suppose would depend
21 upon his financial capacity, but are there any
22 regulations that deal with that situation, because
23 he can become a broker-dealer as long as he has
24 \$5,000 plus another \$5,000?

25 MR. GEMMELL: Correct.

26 THE CHAIRMAN: He may deal with very much
27 larger sums than that in an underwriting and therefore
28 become obligated to take up large blocks of shares.

29 MR. MOYSEY: Mr. Chairman, I might say that
30 at least in my experience a broker-dealer very seldom



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to have capital necessary to finance or underwrite an
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THE CHAIRMAN: Well, when a member decides
to underwrite an issue making a firm commitment for
a period of time, he is not to be taken back.

MR. MURPHY: But he will not do this on
his own behalf as a rule.

THE CHAIRMAN: He does not?

MR. MURPHY: Not as a rule, no.

THE CHAIRMAN: Well I suppose would depend
upon his financial capacity, but even there any

regulations that deal with that situation, because
he can become a broker-dealer as long as he has
\$2,000 and a broker's license.

THE CHAIRMAN: He may deal with very much
larger sums than that in an underwriting and therefore
become obligated to take up large blocks of shares.

MR. MURPHY: Mr. Chairman, I might say that
at least in my experience a broker-dealer very seldom



1 underwrites on his own behalf. That is the way this
2 has worked out in the last few years. Actually under
3 the Act a broker-dealer could do this but in practice
4 it is very seldom done. Is that not so?

5 MR. GEMMELL: Yes. Certainly a new broker-
6 dealer with minimum capital rarely becomes a promoter.

7 THE CHAIRMAN: But as far as the regulations
8 are concerned he can become a promoter?

9 MR. GEMMELL: Correct.

10 MR. LATIMER: May I say one thing, Mr. Chairman?
11 A firm commitment is definitely a firm commitment,
12 and if it is for \$10,000 and he only has \$10,000 then
13 he would not have the working capital, so he just
14 cannot do that. The only time a new broker-dealer
15 can go into a firm commitment such as that would
16 be if he had sufficient money to take care of the
17 firm commitment, whatever it was.

18 THE CHAIRMAN: Well, in practice, in the
19 case of a new broker-dealer promoting an underwriting
20 or new proposition, does it ever amount to more than
21 \$10,000?

22 MR. GEMMELL: No.

23 MR. LATIMER: The minimum is \$5,000, is that
24 not right?

25 THE CHAIRMAN: I notice the number of broker-
26 dealers have fallen off somewhat in the last few years.
27 Is this a result of expulsion or other disciplinary
28 action of the Association, or is this due to
29 economic conditions?

30 MR. GEE: Mr. Chairman, if the figure for

underwritten by his own capital. Then is the way this
has worked out in the last few years. Actually under
the Act a broker-dealer could do this but in practice
it is very seldom done. Is that not so?

THE CHAIRMAN: Yes. Certainly a new type of
dealer who neither capital raises nor becomes a promoter,
but an individual who as the regulations

are concerned he can become a promoter?

THE CHAIRMAN: Correct.

MR. LAMBERT: May I say one thing, Mr. Chairman?

A first requirement is definitely a firm commitment,
and if it is for \$10,000 and he only has \$10,000 then
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MR. LAMBERT: The minimum is \$5,000, is that

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THE CHAIRMAN: I notice the number of broker-
dealers have fallen off somewhat in the last few years.
Is this a result of expiration of other registrations
or is this due to

economic conditions?

MR. LAMBERT: Mr. Chairman, in the 2 years



1 1962 was included here it would show the number
2 as 80. This indicates an even greater decrease.
3 Well, this is due in some instances to cancellations
4 of licenses through disciplinary action either by
5 the Association or the Commission, but in most cases
6 it is due simply to business reasons. I am referring
7 to the table on page 2. We have mentioned at a
8 later point in the brief the problems of distribution
9 in the United States and in certain areas of Canada,
10 and I suggest because of those problems the number
11 of members has dropped considerably over the last
12 few years.

13 COMMISSIONER GIBSON: You say the number
14 is down from 103 to 80?

15 MR. GEE: Yes. The figure that appears
16 in the table is as of the renewal date in each year,
17 which is March 31st. The March 31st, 1962 figure
18 is 80 or 78, I believe, but it is now 80.

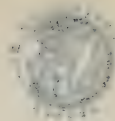
19 COMMISSIONER GIBSON: It is 80 instead
20 of 78?

21 MR. GEE: If the 1962 figure was included
22 in the table, which it is not, it would show 25 members
23 of the Toronto Stock Exchange and a total number,
24 including the members of the Toronto Stock Exchange,
25 making a total of 80. There are 55 non-members.

26 THE CHAIRMAN: The figure is 80 as compared
27 to 103?

28 MR. GEE: That is correct.

29 MR. MOYSEY: In other words the number of
30 non-members has dropped to 78 in 1962.



as 80. This indicates an even greater decrease. Well, this is due in some instances to cancellations of licenses through disciplinary action taken by the Association or the Commission, but in most cases it is due simply to business reasons. I am referring to the table on page 2. We have mentioned an later point in the brief the problem of distribution in the United States and in certain areas of Canada, and I suggest because of these problems the number of members has dropped considerably over the last few years.

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COMMISSIONER GIBSON: It is 80, is it?

of 78?

MR. GIBSON: If the 1962 figure was included in the table, which it is not, it would show 82 members of the Toronto Stock Exchange and a total number, including the members of the Toronto Stock Exchange, making a total of 80. There are 52 non-members.

THE CHAIRMAN: The figure is 80 as compared

MR. MOYSEY: In other words the number of



1 MR. GEE: To answer your question, I
2 would suggest that the drop in number is a direct
3 result of business reasons or lack of business and
4 brokers have been forced to close their doors.

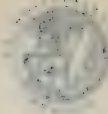
5 THE CHAIRMAN: I presume that most of the
6 business has regard to mining and that sort of
7 promotion?

8 MR. GEE: Up until a year or so ago it
9 was almost exclusively in respect of mining, oil
10 and natural gas, but in the past year and a half
11 or so some brokers have gone into the junior industrial
12 field. There is not a significant number in this
13 regard but this may be some sort of a trend. It is
14 a little early to say, I think.

15 THE CHAIRMAN: Can you give us some idea
16 of the nature of the disciplinary action that has
17 been taken on those occasions when it has been taken
18 in the last two or three years?

19 MR. GEE: Well, this action has been taken
20 as a result of quite a wide range of things. In
21 many cases it has been taken because of lack of
22 capital, or as the result of a failure to come up
23 to capital requirements. In some cases it has
24 resulted as a result of statements in literature
25 that were unsupported. There is really no general
26 reason that I can give, or one predominant reason.
27 There are as many variations of reasons as there
28 are cancellations.

29 THE CHAIRMAN: Well, at the time a dealer
30 is registered he must have a required capital?



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MR. GEE: Up until a year or so ago it was almost exclusively in respect of mining, oil and natural gas, but in the past year and a half or so some brokers have gone into the junior industrial field. There is not a significant number in this regard but this may be some sort of a trend. It is a little early to say, I think.

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THE CHAIRMAN: Well, at the time a dealer is registered he must have a required capital?



1 MR. GEE: Yes.

2 THE CHAIRMAN: But in the course of doing
3 business the dealer is supposed to have a certain
4 amount of capital, but perhaps this is reduced?

5 MR. GEE: Yes, his operating expenses eat
6 into his capital requirement.

7 THE CHAIRMAN: But he always has to maintain
8 a certain capital?

9 MR. GEE: Yes.

10 THE CHAIRMAN: When they send out literature
11 of one kind and another is that literature scrutinized
12 by the Association?

13 MR. GEE: Yes, it is.

14 THE CHAIRMAN: Regularly? Just how do
15 you do that?

16 MR. GEE: Well, when a broker-dealer intends
17 to send out literature, whether it is a weekly market
18 letter, or whatever the nature may be, and regardless
19 of whether or not there is any recommendation
20 concerning a specific security contained therein,
21 he has to make three copies available to the Broker-
22 Dealers' Association prior to its being distributed
23 or mailed and, in fact, this is prior to its being
24 printed. We peruse that literature. We retain one
25 copy in our files, we send one copy to the Ontario
26 Securities Commission and we return one to the
27 broker at which time he can go ahead and print the
28 material and mail it. This regulation covers
29 everything that the broker-dealer intends to send
30 out to more than four or five people.



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you do that?

MR. GERR: Well, when a broker-dealer intends

to send out literature, whether it is a weekly market

letter, or whatever the nature may be, and regardless

of whether or not there is any recommendation

concerning a specific security contained therein,

he has to make three copies available to the Broker-

Dealers' Association prior to its being distributed

or mailed and, in fact, this is prior to its being

printed. We peruse that literature. We retain one

copy in our files, we send one copy to the Ontario

Securities Commission and we return one to the

broker at which time he can go ahead and print the

everything that the broker-dealer intends to send

out to them four or five people.



1 THE CHAIRMAN: Does the Association have
2 a staff to handle this work?

3 MR. GEE: Yes, Mr. Gemmell and myself
4 take care of that aspect of it.

5 THE CHAIRMAN: You feel you can pretty
6 well handle it without additional help?

7 MR. GEE: Yes.

8 COMMISSIONER LEMAN: May I interject
9 a question at this point, Mr. Chairman? Earlier
10 I think you said that in some cases disciplinary
11 action had been taken because of unsupported statements
12 in literature that had been issued. Was that the
13 result of literature which was not submitted to
14 you?

15 MR. GEE: No. As I said, there are only
16 one or two instances of this, but this would be the
17 result of statements that have been made as to
18 factual matters in literature submitted. The Broker-
19 Dealers' Association in perusing the literature would
20 not know the accuracy of facts pertaining for example
21 to drill results, or an exploration programme. These
22 statements might be unsubstantiated in an engineering
23 report, or unjustified but we have no way of knowing
24 that. We do not peruse the literature from the
25 point of view of factual material. This disciplinary
26 action would result from such a statement when
27 subsequently it was found to be in error.

28 THE CHAIRMAN: Well, if a statement contains
29 information in respect to the results of a diamond
30 drilling/aⁱⁿ certain area, would that statement not



THE CHAIRMAN: Does the Association have

a staff of people to do this?

MR. GERR: Yes, we have a staff of people.

Take care of that aspect of it.

THE CHAIRMAN: You feel you can properly

will handle it in some way or other?

MR. GERR: Yes.

THE CHAIRMAN: All right, let's go on.

a question at this point, Mr. Chairman? Earlier

I think you said that in some cases discreditable

action had been taken because of unsupported statements

in literature that had been based on

result of literature which was not substantiated

your?

MR. GERR: No. As I said, there are only

one or two instances of this, but this would be the

result of statements that have been made as to

factual matters in literature submitted. The Engineer-

Desires' Association in pursuing the literature would

not know the accuracy of facts pertaining for example

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report, or unjustified but we have no way of knowing

that. We do not pursue the literature from the

point of view of factual material. This gradually

action would result from such a statement when

subsequently it was found to be in error.

THE CHAIRMAN: Well, if a statement contains

information in regard to the location of a

drilling or certain area, would that be



1 be corroborated by the engineer or by someone of
2 that type?

3 MR. GEE: Well, that is perhaps not a
4 very good example. If the statement were as the
5 result of an assay, that certainly would be substantiated,
6 and you would not get a mis-statement of fact in
7 regard to something of that type.

8 THE CHAIRMAN: Well, when you peruse the
9 literature is there anything contained in the
10 literature to indicate who is responsible for such
11 a statement of fact?



It is not possible to say whether or not the statement is

correct.

Well, that is perhaps not a

very good example. If the statement were as the

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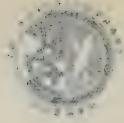
1 MR. GEE: If it is a statement as to engineering
2 fact and it is quoted, they would have to name the
3 source of the quotation: the consulting engineer
4 or the resident engineer, or whoever made the report.
5 They would be, therefore, unwise not to have obtained
6 that statement in writing. To take a phone call
7 from a property is probably not too wise for the
8 broker, and we try to discourage that as much as we
9 can. But our perusal is mainly made from the point
10 of view of flamboyancy. We try to keep the
11 literature as conservative as we can without applying
12 any standard of taste particularly. But we try
13 to avoid, if we can catch them, any cases where
14 a broker-dealer might in error contravene some
15 particular regulation such as mentioning the
16 prospectus having been registered at the Securities
17 Commission, which is against the Ontario Securities
18 Act. Any obvious factual errors we would try to
19 catch, but there may be the odd thing we would have
20 no knowledge of.

21 THE CHAIRMAN: Could you give us a little
22 more information about your contacts with the
23 Commission? To what extent does the Commission
24 exercise any supervising powers, if at all?

25 MR. GEE: Do you mean on the subject of
26 literature, or over-all?

27 THE CHAIRMAN: Well, generally speaking,
28 yes.

29 MR. GEMMELL: The Commission are constantly
30 supervising us. It is a sort of a system -- they



fact and it is quoted, they would have to name the source of the quotation: the consulting engineer or the resident engineer, or whoever made the report. They would be, therefore, unwise not to have obtained that statement in writing. To take a phone call from a property is probably not too wise for the broker, and we try to discourage that as much as we can. But our general is mainly made from the point of view of flamboyancy. We try to keep the literature as conservative as we can without applying any standard of taste particularly. But we try to avoid, if we can catch them, any cases where a prospectus might be first mentioned in particular regulation such as mentioning the prospectus having been registered at the Securities Commission, which is against the Ontario Securities Act. Any obvious factual errors we would try to catch, but there may be the odd thing we would have no knowledge of.

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MR. GEE: Do you mean on the subject of

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MR. GEMMELL: The Commission are constantly

supervising us. It is a sort of a system -- they



1 haven't abdicated any field in any respect to the
2 Association. If they receive a complaint, or
3 presumably a copy of the literature which we sent
4 to them before it is used, it is standard practice
5 with us that they have all the information we have
6 which we obtain in the ordinary business of the
7 Association. More likely the Commission with its
8 greater resources can check a mis-statement of fact.
9 They have a geologist permanently on the staff of
10 the Commission who is more likely to be familiar
11 with the general goings-on in the mining camps in
12 the country.

13 THE CHAIRMAN: Then, the Commission is active
14 in each issue as it comes forward, and follows it
15 up, does it?

16 MR. GEMMELL: They do not take the position,
17 that because they have copies of the literature
18 sent to them, and it is there and available to the
19 staff and we have not prevented its use, they
20 therefore have no right to act. They will sometimes
21 subsequently discover something improper through
22 an investigation or general inquiry or letter of
23 complaint from the public, and review an
24 advertising programme, and then find errors or
25 mistakes on which they will act, as they see fit.

26 MR. MOYSEY: It is fair to say, though,
27 that when the prospectus is first issued, after all
28 this is processed by the Securities Commission, and
29 at that time they use every resource in their power
30 to see that the statements used in the prospectus are



presumably a copy of the literature which we sent to them before it is used, it is standard practice with us that they have all the information we have

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THE CHAIRMAN: Then, the Commission is active in each issue as it comes forward, and follows it up, does it?

MR. GEMMELL: They do not take the position, that because they have copies of the literature sent to them, and it is there and available to the staff and we have not presented it to use, they therefore have no right to act. They will sometimes successfully discover something improper through an investigation or general inquiry or letter of complaint from the public, and review an advertising programme, and then find errors or mistakes on which they will act, as they see fit.

MR. MOSEBY: It is fair to say, though, that when the prospectus is final issued, after all this is processed by the Securities Commission, and



1 accurate and founded on fact. Supervision from there
2 on is of the general type that we all try to follow --
3 both the Broker-Dealers' Association and the Commission.

4 THE CHAIRMAN: Yes, the initial scrutiny is
5 of great importance, but problems generally begin
6 at the later stages.

7 MR. MOYSEY: That is the trick, Mr. Chairman,
8 yes.

9 THE CHAIRMAN: I don't know how you watch
10 everybody all the time.

11 MR. MOYSEY: We would need a detachment
12 of the R.C.M.P. on all the mining camps to do that.

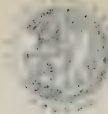
13 THE CHAIRMAN: Then, when you get into the
14 marketing of shares, does the Association take any
15 active part in attempting to prevent irregular
16 practices in marketing stocks, or is that impractical?

17 MR. LATIMER: Mr. Chairman, the one important
18 thing is price spread; that is looked after by
19 B.D.A. When a deal is qualified and underwriting
20 goes through there is a price spread which is set
21 by the B.D.A. which is one of the important factors
22 as far as carrying on and keeping it in an orderly
23 manner.

24 MR. MOYSEY: That is exactly what I was
25 going to say, Mr. Latimer.

26 THE CHAIRMAN: I don't want to pursue that
27 too much at the moment. Mr. Brown has some questions
28 to ask you on the general subject of underwriting.

29 Is there any provision made by the Association
30 for auditing the books of members?



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too much at the moment. Mr. Brown has some questions

to ask you on the general subject of underwriting.

Is there any provision made by the Association

for auditing the books of members?



1 MR. GEMMELL: Yes, prepared by the Association
2 auditor. There is the annual audit and a surprise
3 audit every year, at which time it is on such occasions
4 usually such instances as Mr. Gee mentioned, where
5 the member is discovered to be operating at less
6 than the required minimum capital.

7 MR. MOYSEY: Members are also subject to
8 surprise audits by the Securities Commission at any
9 time.

10 THE CHAIRMAN: What about the registration
11 of salesmen: that is all done by the Commission,
12 isn't it?

13 MR. GEMMELL: Yes, sir. Salesmen employed
14 by members of the Association are required to become
15 associate members, and to that extent the Board
16 has some control over them while they are so
17 employed. We ask for an independent application of
18 associate membership from them which enables the
19 Board through its knowledge of the community and so
20 on -- not to the same degree, of course, they would be
21 familiar with an application for Broker-Dealer
22 registration -- but to some degree they may be
23 familiar with a man's background and be able to
24 assess the situation.

25 THE CHAIRMAN: I don't know whether it is
26 possible to describe what a typical background
27 would be?

28 MR. GEMMELL: No. New applicants may come
29 from all fields, and the Association requires them
30 to write a test. It is more in the nature of a test



MR. CHAIRMAN: Yes, prepared by the Association.

auditor. There is the annual audit and a surprise audit every year, at which time it is on such occasions usually such instances as Mr. Lee mentioned, where the member is discovered to be operating at less than the required minimum capital.

MR. MONROE: Members are also subject to surprise audits by the Securities Commission of any

THE CHAIRMAN: What about the registration of statement, then is all done by the Commission, isn't it?

MR. MONROE: Yes, any statement required by members of the Association are required to become associate members, and to that extent the Board has some control over them while they are an

employed. We ask for an independent application of associate membership from them which enables the Board through its knowledge of the community and so on -- not to the same degree, of course, they would be

familiar with an application for Broker-Dealer registration -- but to some degree they may be familiar with a man's background and be able to assess the situation.

THE CHAIRMAN: I don't know whether it is possible to describe what a typical background would be?

MR. MONROE: Yes, the typical background from all fields, and the Association requires them to write a test. It is more in the nature of a test



1 than an examination, because when the original
2 discussions were underway as to how severe they should
3 be, it was felt that we have no training or educational
4 facilities, and to impose a severe and exhaustive
5 examination would not be fair. There is no way
6 of determining what the background is of people who
7 apply for registration as securities salesmen.

8 MR. LATIMER: Quite often we have an interview,
9 if we haven't previous knowledge of their background,
10 or if there is anything in their application that
11 would look as if it should be gone into more thoroughly.
12 In cases like that we have them in for an interview
13 at one of our board meetings before the registration
14 goes through.

15 MR. MOYSEY: Also, Mr. Chairman, sometimes
16 applications for salesmen -- we feel while we cannot
17 put our finger on it, we don't want the man to be
18 a salesman, and it is very difficult and embarrassing
19 not to allow him to be one.

20 COMMISSIONER BROWN: What do you do?

21 MR. MOYSEY: We try to find a reason.

22 COMMISSIONER BROWN: Do you have to find
23 a reason?

24 MR. MOYSEY: For the sake of our consciences
25 we try to find one.

26 COMMISSIONER BROWN: Have you any record
27 of how many you have turned down.

28 MR. GEMMELL: At one time we did, but I
29 haven't got it here.

30 MR. GEE: I don't have anything here. There



than an examination, because when the original
discussions were underway as to how severe they should
be, it was felt that we have no training or educational
facilities, and to impose a severe and extensive
examination would not be fair. There is no way
of determining what the background is of people who
apply for registration as scientific personnel.

MR. LATIMER: Quite often we have an interview,
if we haven't previous knowledge of their background,
or if there is anything in their application that
would look as if it should be gone into more thoroughly.
In cases like that we have them in for an interview
at one of our board meetings before the registration
goes through.

MR. MOYSE: Also, Mr. Chairman, sometimes
applications for referees -- we feel while we can't
put our finger on it, we don't want the man to be
a referee, and it is very difficult and embarrassing
not to allow him to be one.

COMMISSIONER BROWN: What do you do?
MR. MOYSE: We try to find a reason.
COMMISSIONER BROWN: Do you have to find

a reason?
MR. MOYSE: Yes, the aim of our committee
we try to find one.

COMMISSIONER BROWN: Have you any record
of how many you have turned down?

MR. CHURCH: At one time we did, but I
haven't got it here.

MR. CHURCH: I don't have anything more. There



1 are some that the Board never sees, because previous
2 to the application being submitted to the Board
3 the person takes this test and does not attain a
4 sufficient standard, and the application is then
5 withdrawn. He cannot try again for another six
6 months; at the end of six months he can attempt the
7 test again, and if he is successful, in any case,
8 he must be interviewed by the salesmen's representative
9 on the Board of Governors who in turn submits the
10 application to the full Board meeting. Where there
11 is any doubt at all, the Board, if it has sufficient
12 reason, rejects the application; invariably, the
13 person has an opportunity of appearing before the
14 Board. In cases where there might be a criminal
15 charge on a person's record, which does not happen
16 very often -- there is the occasional one -- a
17 criminal charge, say, in the nature of the impaired
18 driving, or something that does not relate in any way
19 to the brokerage business, the Board will nevertheless
20 want to see him and discuss the matter with him.
21 Usually a charge like that is not significant, but
22 there are other kinds that we do consider significant.

23 COMMISSIONER GIBSON: The Chairman was asking
24 you about members of the Broker-Dealers' Association:
25 could we go into this a little further in the table
26 on page 2 which shows that of the non-members of
27 the Toronto Stock Exchange there was a decline of
28 about 50 per cent in the 10-year period shown there.
29 There was a further decline in the last year which
30 does not show in the table, but of this decline over

to the application being submitted to the Board
the same takes this test and does not submit a
application submitted, and the application is then
withdrawn. He cannot try again for another six
months at the end of six months he can submit his
test again, and if he is successful, in any case,
he must be interviewed by the chairman's representative
on the Board of Directors who in turn submits the
application to the full Board meeting. Where there
is any doubt as to the Board, it is not sufficient
reason, reasons are required. Invariably, the
reason can be a possibility of appearing before the
Board. In cases where there might be a criminal
charge or a serious matter, which does not involve
very often -- there is the chairman's -- a
material charge, say, as the nature of the proposed
driving, or something that does not relate in any way
to the brokerage business, the Board will nevertheless
want to see and discuss the matter with him.
Usually a charge like that is not sufficient, but
there are other things that we do consider significant.
COMMISSIONER G. B. [Name] The chairman was asking
you about members of the [Name] [Name] Association
could we go into a little further in the table
on page 9 which shows that of the non-members of
the [Name] Stock Exchange there was a decline of
about 50 per cent in the [Name] period and [Name] there
There was a further decline in the last year which
does not show in the table. But if it is [Name] [Name]



1 that 10-year period what would the principal reasons
2 be?

3 MR. LATIMER: I would say, Mr. Commissioner,
4 that one is due to the fact broker-dealers are
5 restricted to working in the Province of Ontario
6 solely. I don't think there are any efforts being
7 made outside the province to acquire any business or
8 to open new accounts etc. Therefore, there are
9 just too many broker-dealers in the Province of
10 Ontario and just not enough people to take care of
11 that matter.

12 COMMISSIONER GIBSON: Then, there has been
13 a lack of interest and activity in the metal markets
14 and the oil markets too: would this also be a reason?

15 MR. MOYSEY: Mr. Commissioner, I think it
16 is brought out a little further on in the brief, but
17 in sum and substance the main thing is the restrictive
18 measures on the broker-dealers' activities in the
19 United States. The United States regulatory authorities
20 take the thing very seriously and they put pressures
21 on the Ontario powers up to the point that finally,
22 in 1961, our Association restricted its members
23 solely to sales in Ontario. I would say that cut
24 off three-quarters of all their business.

25 COMMISSIONER GIBSON: And, of course, not
26 having too much market interest in this sort of thing
27 is just a further ...

28 MR. MOYSEY: ... a further depressant, yes
29 sir.

30 COMMISSIONER GIBSON: What about the influence



that one is in the best position to
 be
 Mr. [Name] would say, Mr. [Name]

that one is in the best position to
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 solely. I don't think there are any efforts being
 made outside the province to attract any business to
 to open new companies. Therefore, there are
 just too many business failures in the province of
 Ontario and that is enough people to take care of

Mr. [Name] would say, Mr. [Name]
 a lack of interest and a lack of activity in the retail market
 and the old market place would have been a disaster
 Mr. [Name] would say, Mr. [Name]

is brought out a lot of business on the street but
 in this case the main reason for the restriction
 is the fact that the business is not active in the

United States. The United States regulatory authorities
 take the very seriously and even put pressure
 on the Ontario government to be the quietest that they

in 1961, our Association restricted the members
 solely to sales in Ontario. I would say that our
 off from Ontario at all their business

Mr. [Name] would say, Mr. [Name]
 having the much needed market in the south of Ontario
 is just a further ...



1 of the big mining companies: are they doing more
2 and more of the initial prospecting, financing and
3 this sort of thing?

4 MR. LATIMER: They are doing some, but I
5 believe there is still a great deal open for the
6 broker-dealer if he is allowed or has the potential
7 to operate. I don't think anybody outside of the
8 small broker-dealer would go into such a small or
9 such a grass roots situation. But, the other large
10 mines that want to make investments wait, I think,
11 until that original work is done, or some of it, so
12 they are not just delving right into the dark.

13 COMMISSIONER GIBSON: What you are saying,
14 in fact, is that there is a demand here which if
15 you are able to fill it would be larger than exists
16 now.

17 MR. LATIMER: I do believe, yes, if the broker-
18 dealer had the necessary, or were allowed ...

19 COMMISSIONER GIBSON: To get the money?

20 MR. LATIMER: Yes -- I am not putting it in
21 the right words; but they are crippled by virtue
22 of what Mr. Moysey has just said and the fact they
23 are working in the Province of Ontario and there
24 are not enough people to take care of the demand
25 for the small investments in order to get these
26 grass roots things done.

27 THE CHAIRMAN: What proportion of your
28 business did you used to get from the United States?

29 MR. MOYSEY: I would say 75 per cent, but
30 that is just a rough personal guess.



1 THE CHAIRMAN: There was a lot of telephoning
2 across the border which caused the trouble; isn't
3 that one of the reasons?

4 MR. MOYSEY: The United States authorities
5 have taken the position, I guess from the beginning,
6 that you should not sell into our country if you
7 are not registered in our country. That is putting
8 it simply, but in sum and substance that is what
9 it means.

10 THE CHAIRMAN: That is the position every
11 jurisdiction takes.

12 MR. MOYSEY: That is correct.

13 MR. GEMMELL: Mr. Chairman, I have a copy
14 of the Securities Exchange Commission Report to
15 Congress last year which pretty much sets out their
16 attitude towards it. I could read this, Mr. Chairman;
17 it is quite short.

18 THE CHAIRMAN: I would like to hear it.

19 MR. GEMMELL: It is under the subject matter
20 of enforcement problems with respect to Canadian
21 securities:

22 "While the unlawful offering and sale of
23 securities by Canadian issuers and broker-dealers
24 continues to be a serious problem, considerable
25 progress has been made within the past fiscal
26 year, resulting in great improvement in this
27 field.

28 The success which has been achieved is
29 due to continued and aggressive efforts and the
30 increasing awareness of the seriousness of the



There was a lot of complaining

that you should not talk about security in the
are not registered in our country. That is true,
it simple, but in the end, the outcome must be good
it seems

THE CHAIRMAN: There is no doubt at all

jurisdiction

that is correct

the law says I have

of the Securities Exchange Commission Report in

Congress last year which partly dealt with our
attitude towards it. I would need that for further
it is quite short.

THE CHAIRMAN: I would like to hear it.

MR. GORDON: It is under the subject matter

of extensive problems in respect to disclosure

information

"While the national situation and state of

activities by American business and industry
continued to be a serious problem, a considerable
progress has been made with the past three
years, resulting in great improvement in the

1961

The success which has been achieved in

the disclosure of financial information

increasing awareness of the serious and the



1 problem on the part of Canadian provincial
2 authorities and responsible members of the
3 Canadian securities industry, resulting in an
4 active interest in co-operative enforcement.
5 We are currently receiving excellent co-
6 operation from most provinces and some segments
7 of the Canadian securities industry.

8 A principal factor in our enforcement
9 programme during the past year has involved
10 the issuance of postal fraud orders which greatly
11 reduced illegal offerings from Toronto. During
12 the past fiscal year, upon evidence furnished
13 by the Commission, 58 postal fraud orders
14 have been issued. Numerous 'extensions' to
15 such orders have also been issued to cover
16 changes of address by persons who sought by such
17 changes to avoid the consequences of original
18 orders directed to them.

19 On March 28, 1961, the Toronto Stock
20 Exchange and the Ontario Broker-Dealers'
21 Association took steps to require their members
22 to refrain from offering securities illegally
23 in the United States. Conferences were held
24 between representatives of the Commission and
25 representatives of the securities industry
26 in Toronto to discuss the situation and to work
27 out a plan whereby broker-dealers in Ontario
28 could operate in compliance with the laws of
29 the United States. As a result of these actions
30 several broker-dealers from Toronto have become



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On March 28, 1961, the Toronto Stock

Exchange was closed for business.
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to refrain from offering securities illegally
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out a plan whereby broker-dealers in Ontario
could operate in compliance with the laws of
the United States. As a result of these efforts



1 registered with this Commission under the
2 Securities Exchange Act of 1934, and have agreed
3 that they will not offer or sell securities
4 in the United States in violation of the
5 registration requirements of the Securities
6 Act of 1933. The chairman of the Ontario
7 Securities Commission has expressed his approval
8 of these arrangements."

9 I may say that Mr. Moysey was directly
10 responsible for the negotiations which are referred to
11 in the Commission's report to Congress which were
12 commenced in April, 1961.

13 THE CHAIRMAN: There is nothing to prevent
14 Ontario broker-dealers from selling securities
15 in the United States if they are properly registered
16 there?

17 MR. GEMMELL: None, except the compliance
18 with the many laws. I believe Mr. Moysey has a
19 chart which was compiled by Mr. Gee.

20 THE CHAIRMAN: Well, I don't know that we
21 want to examine into the laws of the United States;
22 but, on the other hand, most of the sales were made
23 in New York State?



1 MR. GEMMELL: I do not believe so, sir.

2 MR. GEE: We have made very few sales in
3 New York State at any time.

4 THE CHAIRMAN: Are they too sophisticated?

5 MR. GEE: No. I think one point is that
6 New York State already has a great many brokers of
7 its own. New York also has a very unusual -- I
8 think is the only word for it -- securities regulation
9 system, and our people just simply did not want
10 to run afoul of New York State authorities. They
11 use an injunction proceeding which is without notice
12 or anything like that. It is the type of thing that
13 broker-dealers did not want to become associated
14 with or mixed up in. Therefore they generally avoided
15 New York State. I do not know of many brokers who
16 have had very much to do with New York.

17 MR. MOYSEY: I am not going to ask you to
18 examine this chart, Mr. Chairman, but these dots
19 indicate the requirements of each individual state.
20 So, if you think you could become consistent with
21 all the requirements in the United States, this would
22 give you some idea of what you are up against.

23 COMMISSIONER GIBSON: This tendency that you
24 speak of in paragraph 32 that some broker-dealers
25 have begun to participate in the financing of industrial
26 or investment companies, is this a significant
27 development that is going on?

28 MR. MOYSEY: Mr. Commissioner, I would say
29 that this spring, before the break in the New York
30 market, it was becoming an important part of the



MR. GEMMELL: I do not believe so, sir.

MR. GEE: We have made very few sales in
look State at any time.

THE CHAIRMAN: Are they too complicated?

MR. GEE: I think they are going to be.

New York State already has a great many problems of
its own. New York also has a very unusual -- I
think is the only word for it -- accumulated taxation
system, and our people just simply did not want
to run along of New York State authorities. They
use an antiquated procedure which is without notice
or anything like that. It is the type of thing that
broker-dealers did not want to become associated
with or mixed up in. Therefore they generally avoided
New York State. I do not know of many brokers who
have had very much to do with New York.

MR. MOYSEY: I am not going to ask you to
examine this chart, Mr. Chairman, but these data
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So, if you think you could become conversant with
all the requirements in the United States, this would
give you some idea of what you are up against.

COMMISSIONER GIBSON: This tendency that you
speak of in paragraph 52 that some broker-dealers
have begun to participate in the financing of industrial
or investment companies, is this a significant
development that is going on?

MR. MOYSEY: Mr. Commissioner, I would say
that this again, before the break in the New York
market, it was becoming an important part of the



1 broker-dealers business, junior industrials, but
2 when the New York market broke this industrial type
3 of business suffered very sharply and there has not
4 been very much of it in the last two months. It
5 was just starting but presumably, if financial
6 conditions improve, this type of endeavour would
7 come back, I would say.

8 COMMISSIONER GIBSON: Would this kind of
9 thing require more capital? What do you think?

10 MR. GEMMELL: Well, not necessarily because
11 the usual type of thing is where it is a firm
12 offering to the public. It is not a matter of running
13 a market and trying to distribute stock. This is
14 a straight, flat industrial offering and either it
15 is all sold or the deal does not go through at all.
16 So I do not believe it requires a great deal more
17 capital than the old type of stock.

18 COMMISSIONER GIBSON: What sort of size
19 would these offerings be?

20 MR. GEMMELL: They are entirely different.
21 They might be up to a quarter million dollars.

22 COMMISSIONER GIBSON: How far down would
23 they go?

24 MR. GEMMELL: Mr. Latimer may be able to
25 give you an answer on that.

26 MR. LATIMER: I do not think there would be
27 any industrial deals involving less than \$100,000
28 to \$500,000.

29 COMMISSIONER GIBSON: Is this a pretty
30 expensive form of financing for the person getting

of business suffered very sharply and there has not

been very much of it in the last two months. It

was just starting but presumably, if financial

conditions improve, this type of endeavour would

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capital than the old type of stock.

COMMISSIONER GIBSON: What sort of stock

would these offerings be?

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They might be up to a quarter million dollars.

COMMISSIONER GIBSON: How far down would

they go?

MR. GEMMELL: Mr. Latimer may be able to

give you an answer on that.

MR. LATIMER: I do not think there would be

any substantial share interest here and there.

to \$500,000.

COMMISSIONER GIBSON: Is this a private

initiative form of financing for the person getting



1 money?

2 MR. MOYSEY: Not too expensive because the
3 Ontario Securities Commission makes certain that
4 the spread is relatively small or that the underwriter
5 does not get too much no matter what his selling
6 expenses are.

7 COMMISSIONER GIBSON: Many investment dealers
8 feel that this sort of business is uneconomical.
9 Now, your people are in this to some extent.

10 MR. MOYSEY: I think it is a matter in some
11 cases of overhead. If your main source of business
12 is cut off and you are trying to hold an organization
13 together, you will take the crumbs off the table that
14 the other fellow says is not worth his while.

15 COMMISSIONER GIBSON: What sort of interest
16 rate is this kind of business done at? Is it
17 usually a mixture of a bond and some common stock?

18 MR. GEE: Virtually all common stock.

19 MR. LATIMER: Pretty well, although they
20 sometimes set up a preferred and bonus and common
21 stock arrangement.

22 COMMISSIONER GIBSON: So, this is pretty
23 much equity financing you are talking about?

24 MR. MOYSEY: Correct.

25 MR. GEE: Almost entirely.

26 COMMISSIONER GIBSON: And you think that if
27 the market is reasonably good there might be a significant
28 development in this?

29 MR. MOYSEY: I would think they would try
30 it again, yes.



does not get too much to water with the selling

COMMISSIONER ALBION: Now, I would like to

feel that this sort of business is unimportant.

Now, your people are in this in some extent.

MR. GERR: I think it is a matter of some

cases of overheard. If your man would of

as out off and you are trying to hold on to

together, you will have the same off and

the other fellow says it is not worth the

COMMISSIONER ALBION: What sort of interest

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COMMISSIONER ALBION: So, this is pretty

with equity financing you are talking about?

MR. GERR: Almost entirely.

COMMISSIONER ALBION: And you think that it

the market is reasonably good there might be a slight

MR. MOSELEY: I would think they would try



1 COMMISSIONER GIBSON: What sort of competition
2 is there in this business? I guess this sounds a
3 little flat now when things are so inactive, but
4 do prospectors shop around to get the best deal or
5 do they usually work with the one broker-dealer?

6 MR. LATIMER: I believe this could be better
7 answered -- you said "prospector" did you not?

8 COMMISSIONER GIBSON: Yes.

9 MR. LATIMER: Well, I believe that a prospector,
10 if he has dealings with one broker-dealer and he finds
11 he gets along well and that a deal more or less goes
12 over, then he sticks to the same broker-dealer because
13 that is a feather in the cap of the broker-dealer,
14 and the next deal could possibly be of the same nature.
15 I do not know whether that answers your question or
16 not, sir.

17 COMMISSIONER GIBSON: Well, he would not
18 say, "Maybe I paid too much for that last one" and
19 he might feel he could get a better deal with someone
20 else? Are the costs of these things fairly much
21 the same as between one firm and another?

22 MR. LATIMER: I think they are set approximately
23 the same. I do not believe any particular benefits
24 could be derived from shopping around from one broker-
25 dealer to another. I do not believe that. Has anybody
26 else any comment on that matter? Mr. Moysey, have
27 you anything to add?

28 MR. MOYSEY: I am really not qualified to
29 answer that question because I have not done enough
30 of this type of business to answer it. As to competition,



COMMERCIAL BANK. When you get to the bank
 is there in the building? I guess this is the
 little first now with things and so on. I
 and so on to get the first one
 do they usually work with the one in the building?
 MR. LATIMER: I believe this would be better
 answered -- you said "business" did you say?

MR. LATIMER: Well, I believe this is a good one
 if he has dealings with one in the building and he looks
 he gets along well and I get a good one in the bank
 one, that he looks to the same business in the
 that is a feature in the end of the building
 and the next deal will be of the same nature
 I do not know whether that answer your question or

COMMERCIAL BANK. Well, he would not
 say. "Maybe I said too much for you, but you see
 he might feel he could get a better deal with another
 else? Are the costs of these things fairly low?
 the same as between one firm and another?

MR. LATIMER: I think they are not agreed upon
 the same. I do not believe any particular business
 could be carried from shipping around from one place
 dealer to another. I do not believe that the shipping
 else any comment on that matter? MR. LATIMER: Yes
 you are going to add?

MR. LATIMER: I am really not qualified to
 answer that question because I have not been in the
 of this type of business as a dealer. Am I correct?



1 there is another kind of competition, again that
2 appears in the brief, on which the Association frowns
3 very severely. It is called switching. I think you
4 are all perhaps familiar with that. It involves
5 one dealer getting hold of a list of another dealer's
6 clients and he tries to switch them out of the
7 other dealer's stocks into his own particular promotion.
8 That is a good way to get yourself suspended or
9 expelled from the Association.

10 COMMISSIONER GIBSON: It must produce a rather
11 unfriendly environment, I should think.

12 COMMISSIONER BROWN: Have you a regulation
13 in your Association against this practice?

14 MR. MOYSEY: Yes.

15 MR. GEE: In the past four years that I have
16 been a member of the Association the incidence of
17 this has been practically nil. As a matter of fact,
18 I do not know of a single case. This was a very
19 prevelant practice some years ago about the time
20 the Association came into existence, and for a short
21 time afterwards. But it is very rare now.

22 COMMISSIONER GIBSON: How do they get the
23 other fellow's list of customers?

24 MR. GEE: Through a trust company.

25 MR. LATIMER: They get it from a trust
26 company. Somebody has stock registered and they
27 can go in and get a list of the shareholders.

28 MR. GEE: Another way is that the salesmen
29 who had a great deal to do with selling the first
30 stock may transfer to a second promoter and somehow



there is another kind of corporation, again that
appears in the brief, in which the Association, I think
very severely. It is called something. I think now
are all perhaps familiar with that. It involves
one dealer getting hold of a kind of an open market
clients and he tries to switch them out of the
other dealer's stock into his own particular promotion.
That is a good way to get yourself suspended or
expelled from the association.

COMMISSIONER GIBSON: It must produce a rather
unfriendly environment, I should think.

COMMISSIONER BROWN: Have you a regulation
in your Association against this practice?

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other fellow's list of customers?

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MR. LATHROP: They get it from a trust

company. Somebody has stock registered and they
can go in and get a list of the shareholders.

MR. GIBSON: Another way is that the relation

between a trust deal to do with selling the first

trust and the second is a trust company and a



1 take a list of the people he talked to along with
2 him.

3 COMMISSIONER GIBSON: He would remember a lot
4 of them anyway.

5 MR. GEE: Yes. He would keep a list somehow.
6 I think the practice was that he would keep a list
7 and carry it around with him and the list would get
8 bigger and bigger as he transferred from broker to
9 broker. Today this practice is almost non-existent.

10 COMMISSIONER BROWN: I am curious as to how
11 you can stop a person selling something at a profit.
12 If somebody has a security how can you stop him
13 from selling it?

14 MR. GEMMELL: I believe this requirement
15 only applies as a prohibition against two competing
16 issues in primary distribution. The Board does
17 not purport to suggest that if two grass-root ventures
18 are roughly at the same stage of financing that one
19 is not at that stage entitled to benefit at the
20 expense of the other, that this would be unfair to
21 the companies as well as to the broker-dealers.

22 COMMISSIONER BROWN: Does a customer know
23 when he buys a security that he cannot sell it for
24 so long?

25 MR. GEMMELL: There is no prohibition there.
26 It is a case where the Board is satisfied that a
27 broker-dealer has intentionally taken aim at a
28 competitor's customer and talked him into unloading
29 his securities and has taken the proceeds and invested
30 them in his own venture. There is no suggestion that



take a line of the people he talked to in the

him.

1. INVESTIGATION: He would remember a lot

of them very well.

MR. TERRY: You would have a list of them?

I think the practice was that he would keep a list

and carry it around with him and the list would not

change and change as he transferred from buyer to

seller. Today this practice is almost nonexistent.

I am not sure as to how

you can keep a list of selling companies as a practice.

If somebody had a security now can you stop him

from selling it?

MR. GEMMELL: I believe with registration

only companies as a first step, and then the

Board in order to determine if the Board does

not purport to suggest that it is a good thing

and roughly at the same stage of thinking that the

is not at that stage and it is a matter of fact

expense of the other, that this would be a matter of

the companies as well as to the Government.

QUESTIONS: How many companies know

when he buys a security that he cannot sell it for

so long?

MR. GEMMELL: There is no question about it.

It is a case where the Board is satisfied that

broker-dealer has intentionally taken him up a

company's customer and misled him and misled him

his securities and has taken the proceeds and invested

them in his own venture. There is no question about



1 a broker-dealer or salesman could not say to somebody
2 whom he was talking to, "I think that is a poor
3 buy. I suggest you sell it." But if he is doing
4 this and taking the proceeds and putting them into
5 something of exactly the same nature, then the feeling
6 is that this practice does not do the company any
7 good.

8 THE CHAIRMAN: Well, it could ruin
9 the whole business of the first company.

10 MR. GEMMELL: And then it becomes a
11 cycle.

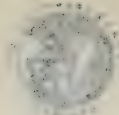
12 MR. MOYSEY: Yes, it goes from "A"
13 to "B" and "B" to "C" and all around. I may say,
14 Mr. Commissioner, there is never any suggestion
15 in this Association that any member of the public is
16 restrained from selling his security at any time.

17 COMMISSIONER BROWN: Just restrained
18 from selling it through certain people.

19 MR. MOYSEY: We take aim at the salesman
20 who phones him up and says, "Look, Company 'A' you
21 have is no good. I think the one for you, my friend,
22 is Company 'B'. Now, you sell 'A' and buy 'B'".

23 We do not take any aim at the customer.
24 That is up to him if he wishes to do it, but we
25 take considerable aim at the salesman, if it becomes
26 an obvious pattern. There has to be a pattern.
27 We do not take any action in an isolated instance.

28 THE CHAIRMAN: Well, if it is a deliberate
29 attempt to do you out of all the work that you have
30 done on your company and take the cream and put it



... I suggest you sell it. But if he is doing this and taking the proceeds and putting them into something of exactly the same nature, then the fact is that this practice does not do any company any harm.

THE CHAIRMAN: Well, it is only with the whole business of the first company. MR. COWLEY: And then it becomes a

MR. MOSELEY: Yes, it goes from "A" to "B" and "C" and all around. I may say Mr. Commissioner, there is never any suggestion in this Association that any member of the public be restrained from selling his security at any time.

MR. MOSELEY: We take aim at the salesman who phones him up and says, "Look, Company 'A' you have it no good. I think the one for you, my friend, is Company 'B'. Now, you sell 'A' and buy 'B'." We do not take any aim at the customer.

That is up to him if he wishes to do so, but we take considerable aim at the salesman, if it becomes an obvious pattern. There can be no pattern. We do not take any action in an isolated instance.

THE CHAIRMAN: Well, it is a fair question to attempt to do you out of all the work that you have done on your company and take the proceeds and put it



1 into some other venture, which is highly speculative,
2 then you take action.

3 MR. MOYSEY: That is right.

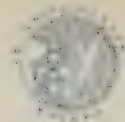
4 THE CHAIRMAN: You can conceive that there
5 would be some difficulties arising from this sort
6 of thing.

7 MR. MOYSEY: It is a case of where your
8 administration is an art and not a science. You
9 have to make up your mind if it is a pattern, and
10 that is a matter of judgment.

11 COMMISSIONER GIBSON: You have not given
12 us any financial information. I was wondering whether
13 you could give us any general ideas as to the expenditure
14 patterns of the business. What are the main sources
15 of income of broker-dealers?

16 MR. MOYSEY: The main source of income
17 of broker-dealers, I would say, subject to correction,
18 is the profit from the underwriting, and either he
19 underwrites himself, which as I said earlier is most
20 unusual, or he underwrites on behalf of the principal
21 and he receives a commission and selling expenses
22 for doing so. The main source of the revenue, of
23 course, is the spread between what the stock is
24 taken down at from the treasury of the company and
25 what it runs to in the hands of the public. That
26 spread is divided between the broker-dealer and
27 the underwriter.

28 Unfortunately it is well nigh impossible,
29 if not impossible, to tell you exactly how that is
30 divided because you do not know and we have no way of



into some other venture, which is highly speculative.

MR. MOSEBY: That is right.

THE CHAIRMAN: The next question is this:

Would it be your judgment to recommend that we

of thing.

MR. MOSEBY: It is a case of where your

administration is an act and not a release. You

have to make up your mind if it is a release or

that is a matter of judgment.

COMMISSIONER WEN GRUBER: You have not given

us any financial information. I was wondering whether

you could give us any general ideas as to the expansion

pattern of the business. What are the main sources

of income of broker-dealers?

MR. MOSEBY: The main source of income

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unusual, or he underwrites on behalf of the principal

and he receives a commission and selling expenses

for doing so. The main source of the revenue, of

course, is the spread between what the stock is

taken down at from the treasury of the company and

what it runs to in the hands of the public. That

spread is divided between the broker-dealer and

the issuer.

Unfortunately it is a very tight negotiation.

It is impossible to tell you exactly what the

spread is because you do not know and we have no way of



1 knowing at what price the underwriter sells his stock.
2 He may put it in his pocket and not sell it for
3 ten years or he may be an investor and sell it the
4 very next day.

5 I think the only way you could get at
6 this financial information is through the Income
7 Tax Branch of the Department of National Revenue.
8 We do not have the facilities for this.

9 COMMISSIONER GIBSON: Some of these broker-
10 dealers hold these speculative securities for unknown
11 periods.

12 MR. MOYSEY: It is a funny thing, but some
13 of the salesmen get sold on their own product. They
14 are human just like anybody else.

15 COMMISSIONER GIBSON: Would you have any
16 idea of what the proportion of straight underwriting
17 is compared to selling on a commission basis?

18 MR. MOYSEY: The only guess I could make,
19 subject to correction, is that a great majority of
20 the business is done on behalf of a client. In other
21 words, the broker-dealer does not do this underwriting
22 and option business on his own behalf. He just does
23 not have the capital to do it. He acts as an agent
24 and his revenue comes from acting as an agent. In
25 sum and substance, it is a matter of commission.

26 COMMISSIONER GIBSON: In other words, not
27 many of them take the risk of doing it on his own?

28 MR. MOYSEY: Very few, hardly any.

29 COMMISSIONER GIBSON: Could you give us
30 any kind of picture as to the pattern of expenses?



1 What are the main costs? You have your remuneration,
2 your cost of salesmen, advertising, mailing costs
3 and this kind of thing.

4 MR. MOYSEY: Possibly Mr. Gee could tell
5 us about that.

6 MR. GEE: Perhaps we could estimate it in
7 a very general way. It is rather difficult to say,
8 but the major cost is right at the beginning. It
9 is the salesmen's commission. Then there is the
10 telephone and mailing costs, which are high. There
11 are office costs. The salesman usually receives
12 $12\frac{1}{2}$ per cent of the selling price of unlisted securities.
13 I am told that the telephone costs amount to about
14 5 or 6 per cent. The office overhead, and this is
15 the clerical staff and not the sales staff, would
16 be approximately another 3 or 4 per cent.

17 COMMISSIONER GIBSON: Is it 5 or 6 per cent
18 for telephone or for telephone and mail?

19 MR. GEE: No, that is just for telephone.
20 These are only guesses, of course.

21 COMMISSIONER GIBSON: Yes.

22 MR. GEE: Stamps are the major cost in
23 mail. That is probably another 3 per cent. Before
24 the broker-dealer makes anything the total cost
25 comes to very easily 35 or 40 per cent of the transaction.
26 The company virtually always receives 60 per cent on
27 this commission basis, at least 60 per cent and up
28 to 75 per cent where a broker is acting as an agent;
29 that is, where he has underwritten on behalf of a client.
30 His commission is usually set out in the prospectus at



What are the rates charged? You have some very low rates.

Your cost of telephone, advertising, mailing costs

and this kind of thing.

MR. WATSON: I would like to see some bill.

is about that.

MR. WATSON: Perhaps we could get some bill in

a very general way. It is rather difficult to say

but the major part is right at the beginning. It

is the telephone conversation. Then there is the

telephone and mailing costs, which are high. There

are other costs. The telephone company charges

12 1/2 per cent of the selling price. I should mention

I am told that the telephone rates amount to about

5 or 6 per cent. The office expenses, and this is

the clerical staff and the other sales staff, which

is approximately another 3 or 4 per cent.

COMMERCIAL UNION: Is it 5 or 6 per cent

for telephone or for telephone and mail?

MR. GEE: No, that is just for telephone.

There are only general office expenses.

MR. GEE: There are the major costs in

mail. That is probably another 3 per cent. There

are other costs. The telephone company charges

comes to very easily 35 or 40 per cent of the selling price.

The company usually allows another 60 per cent on

this commission basis. At least 60 per cent and up

to 75 per cent where a broker is acting as an agent.

That is, where he has introduced an agent or a client.

His commission is usually set out in the prospectus of



1 25 per cent, together with a contribution selling
2 cost not to exceed 15 per cent. At this rate many
3 brokers say they simply cannot make money. They
4 do not make any profit.

5 COMMISSIONER GIBSON: So, you draw the
6 picture at somewhere between 35 per cent and 40
7 per cent on the commission basis?

8 MR. GEE: Yes, before the broker himself
9 gets his commission.

10 COMMISSIONER GIBSON: And then there is
11 35 per cent for expenses? You say you get 25 per
12 cent commission handling these things and up to 15
13 per cent covers the selling price?

14 MR. GEE: Yes.

15 COMMISSIONER GIBSON: That is 35 or 40
16 per cent?

17 MR. MOYSEY: Call it 40 per cent.

18 COMMISSIONER GIBSON: And you say it is
19 35 per cent on the expenditure side?

20 MR. MOYSEY: Perhaps I misunderstand this,
21 but that is all together. His total selling cost
22 is roughly 40 per cent before he can say he is making
23 any money at all, that he is keeping anything in
24 his pocket at all.

25 MR. GEE: That is correct.

26 COMMISSIONER GIBSON: But you say he cannot
27 get more than 40 per cent?

28 MR. MOYSEY: That is right, and that is
29 why the membership is going down.

30 COMMISSIONER GIBSON: It is not a very



...the ...
...the ...
...the ...

do not make any profit.

COMMISSIONER GIBSON: No, you don't.

picture is somewhere between 10 per cent and 40

per cent on the commission basis?

MR. GIBB: Yes, before the first himself.

gets his commission.

COMMISSIONER GIBSON: And then there is

35 per cent for expenses? You say you get 25 per

cent commission handling these things and up to 15

per cent covers the selling price?

MR. GIBB: Yes.

COMMISSIONER GIBSON: That is 25 or 40

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MR. MOSELEY: That is correct.

But that is all together. His total selling cost

is roughly 40 per cent before he can say he is making

any money at all, that he is keeping something in

his pocket at all.

MR. GIBB: That is correct.

COMMISSIONER GIBSON: But you say he doesn't

get more than 40 per cent?

MR. MOSELEY: That is right, and that is

and his membership is going down.

COMMISSIONER GIBSON: It is not a very



1 profitable business.

2 MR. MOYSEY: No.

3 MR. GEE: That is why the business has
4 decreased.

5 MR. MOYSEY: Again I am quoting second-hand
6 from what the members have told me over the past three
7 or four years, but in sending out mail in an attempt
8 to get response, the return is down now, to what
9 percentage, Mr. Gee?

10 MR. GEE: Virtually never more than one
11 half of one per cent of the total sent out. There
12 was a time when it was considerably higher than that,
13 up to as high as 3 per cent, but it has steadily
14 decreased over a period of years to where it is now
15 usually a little less than one-half to one per cent.
16 It can be a whole lot worse.



That is why the museum has

MR. WYNN: Again I am going around and

from what the members have told me over the past three
or four years, but in sending out mail as an attempt
to get responses, the return is down to what

MR. BEE: Virtually never more than one

half of one per cent of the total sent out. There
was a time when it was considerably higher than that
up to as high as 2 per cent, but it has steadily
decreased over a period of years to where it is now.
Usually a little less than one per cent.
It can be a whole lot worse.



1 MR. MOYSEY: It is only that half of
2 one per cent that you can approach. You don't
3 necessarily make a sale with that half of one per
4 cent, but it is with that half of one per cent that
5 you can attempt to make a sale.

6 THE CHAIRMAN: Does the broker-dealer ever
7 take certain proportions of the vendor's stock?

8 MR. GEE: Yes.

9 THE CHAIRMAN: The line turns out to be
10 a good one and the broker-dealer has the advantage
11 of owning certain stock which eventually could be
12 sold on the market?

13 MR. GEE: That is right. In a new company
14 the vendor's position is -- as you probably are all
15 aware -- 90 per cent in escrow, and he may have a
16 proportion of the 10 per cent that is free from escrow
17 to sell during the course of the preliminary
18 distribution, and normally will probably sell one
19 share of the free vendor's stock for every four or
20 five or six shares of treasury stock being sold, but
21 he also will probably have some part at least of the
22 escrow stock.

23 THE CHAIRMAN: Generally that is a great
24 incentive, isn't it?

25 MR. GEE: Yes, but it is not much good to
26 him unless the company should be at least moderately
27 successful.

28 THE CHAIRMAN: If one company makes
29 good it may be enough to set him up for life?

30 MR. MOYSEY: That is what we all hope for,



MR. WATSON: It is only that half of one per cent that you can approach. You don't necessarily have a sale with that half of one per cent, but it is with that half of one per cent that you can attempt to make a sale.

THE CHAIRMAN: Does the broker-dealer ever take certain proportions of the vendors' stock?

THE CHAIRMAN: The time comes out to be a good one and the broker-dealer has two advantages of owning certain stock which eventually could be sold on the market?

MR. GUN: That is right. In a new company the vendor's position is -- as you properly say -- aware -- 30 per cent in stock and he may have a proportion of 10 to 15 per cent that is from that position to sell during the course of the partnership distribution, and naturally will probably sell one share of the free vendor's stock for every four or five or six shares of treasury stock being sold, but he also will probably have some part at least of the

THE CHAIRMAN: Is there any other way?

MR. GUN: Yes, but it is not what I had in mind unless the company should be at least moderately

THE CHAIRMAN: Is the company called good it may be shown to see him up and down? MR. WATSON: That is what we all hope for.



1 sir.

2 THE CHAIRMAN: I have seen that happen,
3 as well as other things.

4 MR. MOYSEY: That is what keeps everybody
5 going in this business; the one you hope for some day.

6 COMMISSIONER GIBSON: I have no more
7 questions, Mr. Chairman.

8 COMMISSIONER BROWN: I have a few questions
9 on the underwriting side of it. Some of these have
10 already been answered.

11 In paragraph 14 you set out the basic
12 methods under which this underwriting takes place,
13 and I have one or two questions with respect to each.
14 In the first one you say:

15 "He may act as a principal, underwriting
16 the issue on his own or a client's behalf."

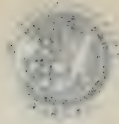
17 I am a little puzzled on this. How does he act as
18 a principal when he is underwriting on behalf of
19 a client?

20 MR. MOYSEY: It is a matter of phraseology.
21 It is the same thing in the stock exchange, say that
22 we are the principal and we are taking stock down
23 from the treasury, but we also declare that actually
24 we are not taking it down for ourselves, we are taking
25 it down for a client. It is a confusion of a phrase,
26 I admit.

27 COMMISSIONER BROWN: You are acting as
28 an agent, then?

29 MR. MOYSEY: Correct.

30 COMMISSIONER BROWN: For somebody else?



... I have been very busy.

MR. MOSEY: That is what keeps everybody

going in this business, the one you hope for some day.

COMMISSIONER BROWN: I have no more

COMMISSIONER BROWN: I have a few questions

on the underlying side of it.

already been answered.

In paragraph 14 you set out the basic

methods under which this underlying takes place.

and I have one or two questions with respect to each.

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the issuer or his agent or a relative interest."

I am a little puzzled on this. How does he act as

a principal when he is underwriting on behalf of

MR. MOSEY: It is a matter of phraseology.

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we are the principal and we are taking stock down

from the treasury, but we also declare that a security

we are not taking it down for ourselves, we are taking

it down for a client. It is a confusion of a phrase.

COMMISSIONER BROWN: You are acting as

COMMISSIONER BROWN: Not absolutely right.



Toronto, Ontario

MR. MOYSEY: That is right.

COMMISSIONER BROWN: In other words, when you are doing that, is it the same as the second method here, to act as an agent for an underwriter?

MR. GEMMELL: In the first instance it is where the two parties to the contract, the underwriting and the option, and it would be that A securities contracts with B mines, but it does disclose, however, that A securities will not end up as the beneficial owner of the underwriting or option stock, and it will be re-assigned subsequently and A would be also, I am sure, on the stock exchange, the underwriter and the optionee; the Exchange looks to that person for marketing practices, do they not, rather than a person who will really own the stock beneficially.

MR. MOYSEY: If we are getting into stock exchange practices ----

MR. GEMMELL: In the case of A here, if I act as the principal, and basically I have a client who is putting out the money for this and will own the stock, nevertheless I take the responsibility and it is my name that is on the contract. It is my responsibility to put out the money and maybe I get it from my client and maybe I don't. I hope to, and I am declaring that actually I plan to do this for the client, but I am responsible as a registered agent for the carrying on of the market, the reasonable marketability of the stock, etc., and I am the one whose name is on the dotted line.

COMMISSIONER BROWN: The client's name doesn't



at is right

COMMISSIONER BROWN: In other

words, when you are doing that, at the same time as

the same time, you are also doing that, and you are

is where the two parties to the contract, the principal and

and the agent, and it would be that A would be

contracted with B, and it does not mean, however,

that A would be the owner of the stock, and it

will be re-assigned to the principal and A would be

also, I am sure, on the stock exchange, the responsibility

and the obligation: the Exchange looks to that person

for marketing purposes, and they not, rather than

a person who will really buy the stock, and

THE WITNESS: If we are getting into that

MR. COMMISSIONER: In the case of a person, if

I act as the principal, and actually I have a client

who is putting out the money for the stock, and



1 appear?

2 MR. MOYSEY: No. It is a matter of disclosure.
3 I can disclose it, but he is not on the contract, I
4 am on the contract.

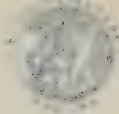
5 MR. GEMMELL: That is true, and in the
6 second instance the underwriter optionee, he is the
7 party and I am the principal as the contracting party
8 for the issuing company, and the underwriter and
9 the optionee is named.

10 I might as a broker-dealer of a non-registered
11 investment company, I might underwrite the option
12 stock, and if I am a registered broker-dealer he
13 might approach me, or vice versa, and say, "Are you
14 interested in distributing these shares? I have
15 100,000 and I have options; I will pay you so much
16 compensation if you are able to distribute them as
17 my agent". In that instance I wouldn't necessarily
18 appear on the prospectus by name at all, because
19 that underwriter could probably approach ten broker-
20 dealers who are registered in the trade.

21 COMMISSIONER BROWN: It was this business
22 of how you acted as a principal on behalf of somebody
23 else that had me confused. What profit is made
24 on this first one? Is this where you have these
25 price spreads, where you are acting as the principal?

26 MR. MOYSEY: It doesn't matter whose name
27 is on the dotted line; whoever is the underwriter,
28 whether acting for himself ---

29 COMMISSIONER BROWN: Let us deal with the
30 first instance where he is acting for himself.



MR. MOSEY: No. It is a matter of disclosure.

I can disclose it, but he is not on the contract. I am on the contract.

MR. GIMMEL: That is true, and in the

second instance the underwriter option, he is the party and I am the principal as the contracting party for the issuing company, and the underwriter and the option is named.

I might as a broker-dealer of a non-registered investment company, I might underwrite the option stock, and if I am a registered broker-dealer he might approach me, or vice versa, and say, "Are you interested in distributing these shares? I have 100,000 and I have options. I will pay you to make compensation if you are able to distribute them as my agent". In that instance I wouldn't necessarily appear on the prospectus by name at all, because that underwriter could probably approach ten other dealers who are registered in the trade.

COMMISSIONER BROWN: It was this question

of how you acted as a principal on behalf of somebody else that had me confused. What profit is made on this first one? Is this where you have these price spreads, where you are acting as the principal?

MR. MOSEY: It doesn't matter whose name

is on the dotted line; whoever is the underwriter, whether acting for himself ---

COMMISSIONER BROWN: Let us deal with the

instance where he is acting for himself.



1 MR. MOYSEY: He is acting for himself
2 and he declares basically, "I have a client behind
3 me; nevertheless, I am acting and I am the one
4 whose name is on the contract." Is that what you
5 have in mind?

6 COMMISSIONER BROWN: Yes.

7 MR. MOYSEY: I have to get the price
8 spread from the Broker-Dealers' Association.

9 COMMISSIONER BROWN: And those are as
10 described in paragraph 2?

11 MR. MOYSEY: As described later on in the
12 brief. The price spread regulations are in this brief,
13 are they not? I think it is right at the end.

14 COMMISSIONER BROWN: Paragraph 82 describes
15 these price spreads, and you go up to a dollar. Does
16 it carry on beyond the dollar?

17 MR. GEE: It wouldn't matter what the
18 underwriting price is; if the underwriting price
19 was \$10 the Board would still have a maximum offering
20 price on the stock.

21 COMMISSIONER BROWN: So, he is acting as
22 principal and the price to the public can be up to
23 these price spread limits?

24 MR. MOYSEY: That is right, and I might point
25 out that in practice it is very seldom the top limit
26 is used and, as in paragraph 82, it is pointed out
27 that in practice it is generally considerably lower.
28 It is the maximum price spread under certain circumstances.
29 They may use it, but very seldom do they use the full
30 price spread.



1 MR. MOSEBY: He is acting for himself
2 and he declares basically, "I have a client behind
3 me; nevertheless, I am acting and I am the one
4 whose name is on the contract." Is that what you
5 have in mind?
6
7 MR. MOSEBY: I have to get the price
8 spread from the Broker-Dealers' Association.
9
10 COMMISSIONER BROWN: And those are as
11 described in paragraph 82.
12 MR. MOSEBY: As described later on in the
13 brief. The price spread regulations are in this brief,
14 are they not? I think it is right at the end.
15 COMMISSIONER BROWN: Paragraph 82 describes
16 these price spreads, and you go up to a dollar. Does
17 it carry on beyond the dollar?
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19 underwriting price is; if the underwriting price
20 was \$10 the Board would still have a maximum offering
21 price on the stock.
22 COMMISSIONER BROWN: So, he is acting as
23 principal and the price to the public can be up to
24 these price spread limits?
25 MR. MOSEBY: That is right, and I might point
26 out that in practice it is very seldom the top limit
27 is used and, as in paragraph 82, it is pointed out
28 that in practice it is generally considerably lower.
29 If in the future there should be any change in
30 They may use it, but very seldom do they use the full
31 price spread.



1 COMMISSIONER BROWN: At first glance these
2 price spreads look pretty high; how is the scale
3 arrived at?

4 MR. MOYSEY: It was before my time that
5 this scale was arrived at; I came on the Board in
6 1955 -- I guess it was 1954 or 1955 -- and they
7 were determined before that. I believe, Mr. Gemmell,
8 that you were there.

9 MR. GEMMELL: I had just joined the Association
10 then. To my knowledge the principal factors -- and
11 there has always been dispute as to whether it is --
12 the majority of the opinion of the Board from time
13 to time has been that in these unlisted speculative
14 securities, aside from the heavy proportion of expense,
15 the interest of people in a grass roots venture, it
16 is one thing that they require a greater spread; also,
17 that when you get into trading markets, as I say,
18 my understanding is that the people engaged in the
19 business have always said, "We have to have freedom
20 of movement," and that is the interest from the
21 development in mining properties or in oil reservation
22 becomes favourable and the speculating public commences
23 buying, the broker-dealers have always maintained,
24 to my understanding, that they be required to have
25 that rather than a special peace offering at, say,
26 25 per cent, no matter what you call it, principal,
27 profit or commission, or anything; it is always
28 said that we need what is looked upon as a wide spread
29 so that the market can move around and trade within
30 that range. That is as I have heard them discuss it



price spreads look pretty tight; how is the scale arrived at?

MR. MOSELEY: It was before my time that this scale was arrived at; I came on the Board in 1925 -- I guess it was 1924 or 1925 -- and they were determined before that. I believe, Mr. General, that you were there.

MR. GEMMELL: I had just joined the Assoc. then. To my knowledge the principal factors -- and there has always been dispute as to whether it is -- the majority of the opinion of the Board from time to time has been that in these unlisted speculative securities, aside from the heavy proportion of expenses, the interest of people in a grass roots venture, is one thing that they require a greater spread; also, that when you get into trading markets, as I say, my understanding is that the people engaged in the business have always said, "We have to have freedom of movement," and that is the interest from the development in mining properties or in oil reservation becomes favourable and the speculating public commences buying, the broker-dealers have always maintained, to my understanding, that they be required to have that rather than a special price offering at, say, 25 per cent, no matter what you call it, principal, profit or commission, or anything; it is always said that we need what is looked upon as a wide spread so that the market can move around and trade within that range. That is as I have heard them discuss it

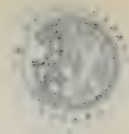


1 over the years. That seems to be the reason, as
2 far as taking a specific rule of thumb which the
3 Board applies. Generally speaking, if a company is
4 receiving 10 cents for underwriter option stock,
5 the Board will say, "We will grant you a price or
6 impose a price of 30 cents," as has been indicated.

7 The broker-dealer may start offering that
8 stock at 20 cents less, but when the 10-cent stock
9 has been paid for, the company has been paid, the
10 Association has a letter from an officer of the company
11 stating that the company has received payment in full
12 for all 10-cent stock, and if the next stock under
13 option was 15 cents, the Board then would increase
14 the maximum offer to 45 cents.

15 COMMISSIONER BROWN: If at this stage the
16 underwriter still had some stock which he had paid
17 the money for at 10 cents, and which he had not
18 yet sold, he can now sell that at 45 cents?

19 MR. GEMMELL: Yes. The Board, as I say,
20 over the years in my experience has said, "We are
21 not prepared to go so far as a man engaged in this
22 business" -- if someone wants to take a gamble and
23 he has paid for the stock, and if he wants to sit
24 on it and take the gamble that in two or three months
25 there will not be some international incident --
26 or national, as far as that goes -- someone unforeseen
27 circumstances develop which would depress or make
28 it impossible for him to sell his holdings, the
29 Board have always said that they do not insist that
30 he satisfy them that he has sold all the stock which



over the years. That seems to be the reason, as far as taking a specific rule of thumb which the Board applies. Generally speaking, if a company is receiving 10 cents for underwritten option stock, the Board will say, "We will grant you a price or impose a price of 30 cents," as has been indicated. The broker-dealer may start offering that stock at 20 cents less, but when the 10-cent stock has been paid for, the company has been paid, the Association has a letter from an officer of the company stating that the company has received payment in full for all 10-cent stock, and if the next stock under option was 15 cents, the Board then would increase the maximum offer to 45 cents.

COMMISSIONER BROWN: If at this stage the underwriter still had some stock which he had paid the money for at 10 cents, and which he had not yet sold, he can now sell that at 45 cents?

MR. GEMMILL: Yes. The Board as I say, over the years in my experience has said, "We are not prepared to go so far as a man engaged in this business" -- if someone wants to make a gamble and he has paid for the stock, and if he wants to sit on it and take the gamble that in two or three months there will not be some international incident -- or national, as far as that goes -- someone who is in circumstances develop which would depress or make it impossible for him to sell his holdings, the Board have always said that they do not insist that he liquidate them that he has sold all the stock which



1 he paid 10 cents for. They never have been prepared,
2 as far as the Association is concerned, to insist
3 on that. They say that that is the underwriter
4 and the optionee's gamble. If he can sell it now
5 and doesn't, hoping as the scale goes up and he continues
6 to keep it, that eventually he will sell it at a higher
7 price, they have said, "Well, that is his business."

8 COMMISSIONER BROWN: Now, in this first
9 section where he is acting as a principal on behalf
10 of a client, what is the division of profit going
11 to be between the broker and this hidden client?

12 MR. GEMMELL: My understanding is in that
13 instance the party to the contract, the broker-dealer
14 who is the underwriter optionee, he pays the underwriting
15 costs and possibly charges his owner -- it doesn't
16 amount to much more than a service fee.

17 MR. MOYSEY: If it were done on the stock
18 exchange we would charge just the same amount.

19 COMMISSIONER BROWN: We are talking about
20 before it gets to the stock exchange.

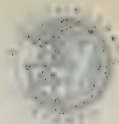
21 MR. MOYSEY: That is why I turned to
22 Mr. Gemmell, because I don't do this.

23 MR. LATIMER: I believe that it is a one
24 cent markup.

25 COMMISSIONER BROWN: You describe that
26 further down in Section D.

27 MR. MOYSEY: It would be a commission.

28 MR. GEE: It is virtually the same practice
29 in the unlisted market as is carried on on the
30 stock exchange. It is usually just a commission rate



as far as the Association is concerned, to insist

on that. They say that that is the understanding

and the optionee's gamble. If he can sell it now

and doesn't, hoping as the stock goes up and he

to keep it, that eventually he will sell it at a higher

price, they have said, "Well, that is his business."

COMMISSIONER BROWN: Now, at this time

section where he is acting as a principal or agent

of a client, what is the division of profit going

to be between the broker and this hidden client?

MR. GEMMELL: My understanding is in that

instance the party to the contract, the broker-dealer

who is the underwriter optionee, he pays the underwriting

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MR. MOSEBY: If it were done on the stock

exchange we would charge just the same amount.

COMMISSIONER BROWN: We are talking about

before it gets to the stock exchange.

MR. MOSEBY: That is why I turned to

Mr. Gemmell, because I don't do this.

MR. LATIMER: I believe that it is a case

further down in Section D.

MR. MOSEBY: It would be a speculation.

MR. GEE: It is virtually the same position

in the United States as it is carried on in the

stock exchange. It is usually just a commission rate



1 established for mining securities on the Toronto
2 Stock Exchange. They use the same rate.

3 COMMISSIONER BROWN: In other words, when
4 he is underwriting as a principal on behalf of a client
5 there is not a subsequent distribution?

6 MR. GEMMELL: Presumably, yes.

7 MR. LATIMER: The client gets the gravy;
8 if there is any gravy; he is acting solely for his
9 commission.

10 MR. GEMMELL: In that event the owner,
11 or the person with the appropriate interest in the stock,
12 may very well turn around to the registered broker,
13 who was the underwriter and optionee on the record,
14 and say, "If there are any bids appearing for this
15 stock on the unlisted market, sell it for me," and
16 the broker, I am sure, would charge a commission
17 for selling.

18 MR. MOYSEY: In item A here, am I not
19 correct in stating that the broker-dealer is acting
20 solely for his commission as it is outlined in this
21 brief? Is that not so?

22 MR. GEMMELL: Yes. All he is doing is
23 taking the stock down from the company in accordance
24 with the contract.

25 COMMISSIONER BROWN: In other words, I take
26 it there is no public distribution involved?

27 MR. GEMMELL: Not necessarily; his function
28 there is to pay the money and receive the stock which
29 he will, according to his principal's directions,
30 do what he likes with it. In fact, he can deliver it



COMMISSIONER FRANK: In other words, when
he is underwriting as a principal on behalf of a client
there is no question of his being a broker.

MR. MILLER: The client gets the money.
If there is any money; he is acting solely for his
commission.

MR. GINNELL: In that event the owner,
or the person with the copyrightable interest in the book,
may very well turn around to the registered broker,
who was the underwriter and customer on the record,
and say, "If there are any rights appearing for this
book on the unlisted market, sell it for me," and
the broker, I am sure, would charge a commission
for selling.

MR. MOSELEY: In that case, am I not
correct in stating that the broker-dealer is acting
solely for his commission as he is entitled to this
brief? Is that not so?

MR. GINNELL: Yes. All he is doing is
taking the stock down from the company in accordance
with the contract.

COMMISSIONER BROWN: In other words, I take
to there is no public distribution involved?

MR. GINNELL: Yes. There is no pay the money and receive the stock which
he will, according to his principal's directions.
as with it. In fact, he can deliver it



1 to the principal, but I can imagine the principal
2 might then say, "If there are any bids coming in on
3 this stock, sell it within such and such a range,"
4 in which event -- I imagine he would charge him
5 the ordinary commission as acting as his agent for
6 selling.

7 MR. MOYSEY: I think what we are getting
8 at, is the broker-dealer in this case to be the one
9 who puts the effort into the distribution of this
10 stock, and I would say in Item A, no. That in Item
11 A he is working for his commission and it is his
12 client who is going to put the effort into trying
13 to distribute the stock.

14 COMMISSIONER BROWN: In other words, Item A
15 has two separate and distinct concepts. One is to
16 act as a principal underwriting on his own behalf,
17 in which case he has all his own profits, and the
18 other one would be where he is underwriting on behalf
19 of a client and there is no public distribution, and
20 these are separate?

21 MR. MOYSEY: If there is no public
22 distribution he is acting solely as the agent for
23 the client and the client will be stirring up the
24 excitement, not him.

25 COMMISSIONER BROWN: And then we get to the
26 one where he is acting for somebody else in doing
27 the underwriting and getting paid a commission.

28 MR. MOYSEY: He is trying to distribute
29 this.

30 MR. GEMMELL: He is taking the active part



1 this stock, sell it within such and such a range.
2
3 in which event -- I imagine he would charge him
4 the ordinary commission as acting as his agent for
5 selling.
6
7
8 at, is the broker-dealer in this case so on the one
9 who puts the effort into the distribution of this
10 stock, and I would say in Item A, no. That is, Item
11 A, he is working for his commission and it is his
12 client who is going to put the effort into trying
13 to distribute the stock.
14
15 has two separate and distinct concepts. One is
16 set as a principal undertaking on his own behalf,
17 in which case he has all the own qualities, and the
18 other one would be where he is undertaking on behalf
19 of a client and where he is public distribution, and
20 these are separated?
21 MR. MEYER: If there is no public
22 distribution he is acting solely as the agent for
23 the client and the client will be turning up the
24 excitement, not him.
25 COMMISSIONER THOMAS: And then we don't see
26 one where he is acting for somebody else in doing
27 the underwriting and getting paid a commission.
28 MR. MEYER: He is acting as distributor
29 this.
30 He is taking the active part



1 in marketing the stock, for which the underwriter-
2 optionee is going to be compensated. Any net profit
3 from the operation is the underwriter-optionee's.

4 COMMISSIONER BROWN: In either of these
5 cases are there instances where the broker-dealer
6 is, in fact, acting on his own behalf or is he involved,
7 if it is a private company that is really the under-
8 writer-optionee, is he ever involved as having
9 an interest in that part of it as well?

10 MR. MOYSEY: Yes, there are such cases;
11 it could be.

12 MR. GEE: I think, Mr. Commissioner, there
13 is a certain amount of confusion arises, and I think
14 it perhaps is due to perhaps an overly legalistic
15 approach here. There is no significant difference
16 really between -- as far as the customer is concerned
17 or as far as the public is concerned -- between a
18 broker-dealer acting as a principal on his client's
19 behalf and a broker-dealer acting as an agent for
20 an underwriter.

21 As I see it, this is a fairly legalistic
22 interpretation. In the first case, as Mr. Gemmell
23 explained, the broker-dealer is named in the prospectus
24 as the underwriter-optionee and it subsequently
25 indicates that he is acting on behalf of some
26 other person or company. In the second case the
27 broker-dealer may not even be mentioned in the
28 prospectus, but there is some private company or
29 a single person, an individual, who is the underwriter-
30 optionee, and it usually has some wording in the



is going to be compensated. Any not profit

COMMISSIONER BROWN: Is either of these

cases are there instances where the broker-dealer

is, in fact, acting on his own behalf or is he involved

if it is a private company that is really the under-

writer-possessor, is he ever involved as having

an interest in that part of it as well?

MR. WATSON: Yes, there are such cases;

it could be.

MR. GIBB: I think, Mr. Commissioner, there

is a certain amount of confusion arising, and I think

it perhaps is due to perhaps an overly legalistic

approach here. There is no significant difference

really between -- as far as the customer is concerned

or as far as the public is concerned -- between a

broker-dealer acting as a principal on his own

behalf and a broker-dealer acting as an agent for

an underwriter.

As I see it, this is a fairly legalistic

interpretation. In the first case, as Mr. Gennell

explained, the broker-dealer is named in the prospectus

as the underwriter-possessor and it subsequently

indicates that he is acting on behalf of some

other person or company. In the second case the

broker-dealer may not even be mentioned in the

prospectus, but there is some private company or

a single person, an individual, who is the underwriter

and it is possible that some underwriter in the



1 prospectus to the effect that since the underwriter-
2 optionee is not a registered security dealer, he will
3 distribute the securities to the medium of a registered
4 security dealer and he sets out a sale plan of some
5 kind.

6 That, I think, is probably a very legalistic
7 separation, and it has led, I think, to the confusion
8 between these two, but in any of the cases the
9 broker-dealer may be receiving simply the underwriting
10 commission or approaching the public directly.

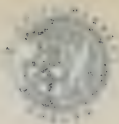
11 COMMISSIONER BROWN: In those cases where
12 the underwriter-optionee is a non-registered person
13 and is operating through a broker-dealer, do I gather
14 that this is because he is the one that is stirring
15 up the interest?

16 MR. MOYSEY: If he is a broker-dealer
17 he will only get a commission, but if the broker-dealer
18 is entitled to do that, he will get the 25 per cent
19 and the 15 per cent of his sales expense.

20 COMMISSIONER BROWN: Is there a loophole
21 in all regulations here if you have a non-registrant
22 who is, in fact, selling the stock?

23 MR. GEMMELL: It would be in violation
24 of the Ontario Act if he wasn't registered and actively
25 engaged in the marketing and trading of securities
26 and under the definition of trading.

27 COMMISSIONER BROWN: I don't know if I
28 follow this business of the non-registrant stirring
29 up the interest.



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follow this business of the non-registered selling
up the interest.



MR. GEMMELL:

1 I think he is responsible whatever resource he has
2 used. He can go to another broker-dealer and say:
3 now, I have the stock which Gemmell and company
4 underwrote under an underwritten option.
5 I have paid the ordinary commission. I have the stock
6 now and I want to market it but there is no particular
7 interest, but I would like broker-dealer "B" to use
8 his marketing facilities, for which I will pay.

9 COMMISSIONER BROWN: Are there any instances
10 where in fact the non-registrant is stirring up
11 interest, making phone calls etc.?

12 MR. MOYSEY: Not in that sense. I think
13 it is in the nature of the business that the under-
14 writer is, let us say, an officer of the company.
15 He might even be the president of the company. It
16 is almost impossible for him to not be interested
17 and not list it with his own company. I am sure he
18 has friends that he will tell about it if he is
19 interested in it and, undoubtedly, they will buy
20 the stock. If he buys it through a registered dealer
21 the registered dealer is going to get a commission.

22 COMMISSIONER BROWN: And the president of
23 the company is making the profit?

24 MR. MOYSEY: If he happens to be the
25 underwriter he is going to make the profit, yes.

26 MR. GEMMELL: Yes, but actually when you
27 get into the mechanics of the confirmation and that
28 sort of thing it becomes apparent.

29 COMMISSIONER BROWN: He does not go into
30 that detail, but it is in fact his stock and it is



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 that detail, but it is in fact his stock and it is



1 being sold through a broker-dealer to members of the
2 public at his encouragement, and he is making a
3 profit?

4 MR. GEMMELL: He cannot go too far in
5 this encouragement. He cannot go rapping at the doors
6 of strangers. He might say: I believe I have the
7 greatest potential mine in the country, and if his
8 friends believe him and go to their brokers and buy
9 the stock he will benefit.

10 MR. MOYSEY: He may be an individual well
11 known in the mining and financial business and it
12 might be sufficient for the public to hear that he
13 has become interested in some particular mine.

14 COMMISSIONER BROWN: Does the public know
15 that it is his stock they are buying?

16 MR. MOYSEY: I do not think you can itemize
17 stock any more than you go to the bank and say:
18 I want that dollar I gave you three months ago.

19 COMMISSIONER BROWN: Yes, but is there a
20 prospectus?

21 MR. MOYSEY: Oh, yes.

22 COMMISSIONER BROWN: Is there a prospectus
23 issued upon the confirmation?

24 MR. GEE: In any case the public gets a
25 copy of the prospectus not later than the date of
26 the confirmation, and the public would then be aware
27 of this.

28 COMMISSIONER BROWN: In the third one here
29 you have the broker-dealer acting as an agent for
30 the company treasury receiving an optionee commission.



...a broker-dealer to members of the public at his encouragement, and he is making a

He cannot do better in this encouragement. He cannot do anything at the point of strength. He might say I believe I have the greatest potential mine in the country and all his friends believe him and go to great lengths and pay the stock he will benefit.

MR. MOORE: He may be an individual, well knows in the mining and financial business and might be sufficient for the public to learn what he has become interested in some particular mine.

that it is his stock they are buying? MR. MOORE: I do not think you are buying stock any more than you do in the bank and say. I want that dollar I gave you three weeks ago.

COMMISSIONER BROWN: Yes, but is there a prospect? MR. MOORE: Oh, yes. COMMISSIONER BROWN: Is there a prospect issued upon the certificate?

MR. DEER: In any case the public gets a copy of the prospectus and what then the case is the confirmation, and the public would then be aware of this.

COMMISSIONER BROWN: In the third case you have the broker-dealer acting as an agent for the company, thereby receiving an entire amount



1 What is the scale of the commission here, is this
2 25 per cent?

3 MR. GEMMELL: It would probably be the same.
4 There is no underwriter-optionee between the company
5 director and the broker-dealer. They will say, the
6 financing plan and prospectus permits us to sell
7 through one or several broker-dealers. If you would
8 like to endeavour to market our stock we will pay
9 you the commission. I think it is about the same,
10 25 plus 15.

11 COMMISSIONER BROWN: There is one sentence
12 here I would like clarified. You say:

13 "The Directors in setting a selling
14 price cannot ignore the price-spread
15 policies of the Association (which is dealt
16 with in detail elsewhere in this brief)
17 nor can the net amount recievable by the
18 treasury after deduction of commissions
19 and selling expenses be less than 10 cents."
20 There is the implication here that somebody is making
21 a profit in between the price to the treasury and
22 the price after the commission spread.

23 MR. GEMMELL: I think what is intended is
24 that the Board's consideration in setting the ceiling
25 is directed to the broker-dealers, and he shall
26 not be in excess of the ceiling, but if a mining
27 company goes to any number of associations, it
28 cannot just say it wants to sell this stock to the
29 public at a dollar, because in the course of the
30 distribution of this stock the broker-dealer would



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 distribution of the stock the broker-dealer will



1 be engaged in primary distribution and, in accordance
2 with the regulations under the Act, the Board must
3 set the maximum offered price. I think that is
4 what it means. The Board of Directors cannot
5 arbitrarily say to the broker-dealer: sell this
6 stock at \$1.50 and we will pay you 25 per cent plus
7 15. The broker-dealer would be obliged to say:
8 Well, first I must obtain the price spread from the
9 Broker-Dealers' Association, and under those circumstances
10 the Board might say: We will be prepared to put a
11 maximum of 30 cents on it for the time being, but
12 not a dollar and a half, in which event the Board
13 of Directors of the mining company might try for
14 a dollar and a half but they would not be given
15 that. They would not do it through the broker-dealer
16 in any event.

17 COMMISSIONER BROWN: Supposing they set
18 a price of 30 cents on it?

19 MR. GEMMELL: Yes.

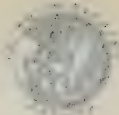
20 COMMISSIONER BROWN: Less 40 per cent
21 commission, and that brings it down to 18 cents.
22 Is the whole of that 18 cents put into the treasury?

23 MR. GEMMELL: In these circumstances,
24 yes.

25 COMMISSIONER BROWN: The implication here
26 was otherwise.

27 MR. GEMMELL: That refers to the 10
28 cents.

29 COMMISSIONER BROWN: No, that refers
30 to the price spread.



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MR. GEMMELL: That refers to the 10

cents.

COMMISSIONER BROWN: No, that refers

to the price spread



1 MR. GEMMELL: No, it does not mean that.

2 MR. GEE: The words "price spread" in this
3 particular case might be a little inaccurate. We
4 refer to it as the price spread colloquially but
5 in fact it is the maximum offering price.

6 COMMISSIONER BROWN: Yes. All I was interested
7 in was making sure there was not somebody else getting
8 a profit between the net cost to the broker-dealer
9 and the amount that goes into the treasury.

10 In the fourth one you say that the broker-
11 dealer acts as a principal purchasing the shares
12 from the underwriter/optionee at a one cent advance
13 on the original underwriting or option price. It is
14 there that he is involved in this price spread, is
15 it?

16 MR. GEMMELL: This is the case, Mr.
17 Commissioner, where broker-dealer "A" approaches
18 the underwriter-optionee, conceivably, and says:
19 I won't work for you as an agent, but if it is of
20 interest to you, and if you are paying 10 cents
21 I will purchase shares from you at 11 cents. It
22 is my own property then and I will endeavour to
23 market it. The significance of the one cent, I
24 believe, results from a policy of the Securities
25 Commission and represents the limit which the non-
26 registered underwriter-optionee may charge. If the
27 underwriter-optionee is a registered broker-dealer
28 and he approaches another broker-dealer and says:
29 If you want to endeavour to distribute this security
30 for me, you may, the compensation can be anything.



MR. GEMMELL: Well, in fact not more than

the fact that the price spread is not

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refer to it as the price spread, especially but

in fact it is the maximum offer price

COMMISSIONER BROWN: Yes, AIA is not

in any manner there was not somebody else doing

the fact that the price spread is not

and the amount was not the treasury

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dealer acts as a principal purchasing the shares

from the underwriter, it is a one-time advance

on the original underwriting or action price. It is

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the

MR. GEMMELL: That is the case, Mr.

Commissioner, where the underwriter "A" approaches

the underwriter, and says,

I want to buy from you as an agent, and if it is of

interest to you, and if you are willing to do

I will purchase shares from you at a certain price

in my own property then and I will endeavor to

market it. The organization of the new company

believe, results from a policy of the government

and represents the interest of the government

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and he approaches another broker-dealer and says,

If you want to endeavor to distribute this security

the company can be arranged.



1 I believe that one cent results from a policy of
2 the Ontario Securities Commission where the underwriter-
3 optionee is not registered. The Securities Commission
4 will not allow you to profit to a greater extent
5 than one cent a share if the non-registered underwriter-
6 optionee re-sells to a registered broker-dealer.

7 COMMISSIONER BROWN: But if the registered
8 broker-dealer is acting on commission the one cent
9 limit does not apply?

10 MR. GEMMELL: No, the unregistered principal
11 underwriter-optionee can say: I will pay the 25 per
12 cent plus 15. That is my understanding. However,
13 in the case of two broker-dealer registrants where
14 one is the underwriter, to my knowledge the only
15 reason he cannot say to another registered dealer:
16 I am going to charge you 10 cents -- conceivably
17 he has paid 15 cents for the stock, and he can make
18 more -- is to discourage unregistered people getting
19 into the stream.

20 COMMISSIONER BROWN: Of these four methods
21 which is the most common?

22 MR. GEE: I think that probably the second
23 is the most common. The third in quite recent
24 years; the last two or three, has become quite
25 common. I think it would be fair to say that the
26 most common is the broker-dealer acting as the agent
27 for the underwriter-optionee on the 25 per cent
28 plus 15 per cent basis. There is a small but
29 significant group who act solely as principals but
30 never act as agents.



will not allow you to profit to a greater extent
than one needs a share of the non-revenue of the industry.

CONCERNING THE PROPOSAL: But in the past, the
business has been in a state of stagnation and has not
improved since that time.

MR. HANCOCK: Now, the 10 registered persons
underwritten by the company, I want you to be
sent this 10. I am in my mind and my
in the case of the underwritten registered persons
one is the underwriter, in my mind, the
company he cannot say he is a registered person
I am going to charge you 10 cents - a small sum
of his bill of costs for the company and for the
work - in the meantime, many other people
into the company.

CONCERNING THE PROPOSAL: Of these four men, the
which is the most common
MR. HANCOCK: I have personally known and
is the most common. The other three people
years, the first two of these have become quite
common. I think it would be fair to say that the
most common is the professional working in the
for the underwritten company on the 10th day
for it is not easy. There is a small sum
these people who are a help in the industry.



1 The last one is certainly by far the least
2 common, I think it would be fair to say.

3 THE CHAIRMAN: We will adjourn for 15
4 minutes.

5 --- Recess

6 THE CHAIRMAN: We will now proceed.

7 COMMISSIONER BROWN: You explained that
8 the distributor, where he appears on the Board of
9 the company is in fact controlling the company.
10 This must surely frequently place him in the position
11 of having to make some difficult decision with
12 respect to his own interest and the interest of the
13 public with which he is dealing.

14 What would the effect be on the industry
15 if the underwriter was forced to deal only at arm's
16 length with the company? Would this finish the
17 industry, or could it operate on that basis?

18 MR. MOYSEY: We are now in the realm of
19 conjecture, are we not?

20 COMMISSIONER BROWN: Yes.

21 MR. MOYSEY: I think it is fair to say
22 that in a good many cases the underwriter, or whoever
23 it is that is trying to finance the company, has a
24 portion of the vendor stocks which might give him
25 control, or working control? That is his dream.
26 He is probably not going to make a great deal of
27 money, surprisingly enough. Certainly in these present
28 days he is not going to make a great deal of money
29 out of financing the company, but his dream is that
30 the company will be sufficiently successful that he



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1 will get some of his stock released, and that is
2 where he hopes to make his profit.

3 My guess would be that if he were not
4 permitted to have a substantial interest in the
5 stock, and in that way you took his dream away from
6 him, it would put a very serious crimp in the financing
7 of this type of endeavour.

8 THE CHAIRMAN: How does he come to control
9 the company? He would have to have a majority of
10 the shares?

11 MR. MOYSEY: Well, let us say of the
12 outstanding shares, but not the authorized issued
13 shares.

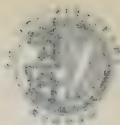
14 THE CHAIRMAN: It would have to be the
15 outstanding shares which at the outset would be
16 the vendor's shares?

17 MR. MOYSEY; Yes, he wants to get a
18 fair portion of the vendor's shares.

19 THE CHAIRMAN: He would want enough of
20 those shares to give him control of the company?

21 MR. MOYSEY: Well, he and the vendors
22 between them I would say would control the company.
23 He might not necessarily control it all by himself,
24 but the vendors are not going to interfere with him
25 very much as long as he is the one who is attempting
26 to finance the company. They will all benefit from
27 that so that he is not going to run into any effective
28 opposition as long as he is doing a good job.

29 THE CHAIRMAN: Of course it varies a great
30 deal, I suppose, in each case, but the vendor's stock



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1 is the stock given to the owners of the properties;
2 the people that acquire the properties. Does the
3 principal of that finance interest pay the vendors
4 something for that proportion of that stock?
5 What is the usual transaction?

6 MR. MOYSEY: He certainly is not going
7 to pay the market price. He would buy it at a very
8 substantial discount or he would receive an option
9 from the vendor to buy it at a very substantial
10 discount, one or the other, which gives him control.

11 Another thing to keep in mind is that
12 in this type of financing the public does not
13 register the stock in their own names, so that the
14 stock that is purchased by the public does not really
15 affect the control of the company because the company
16 is paying no dividend and there is no particular
17 reason for the ultimate purchaser to register the
18 stock in his own name. Therefore this does not
19 affect the voting control of the company at all.

20 THE CHAIRMAN: Well, in whose name would it
21 be registered?

22 MR. MOYSEY: It would be in the issuing
23 broker's name or the name of the underwriter-optionee.
24 It might well be in the underwriter's name.

25 THE CHAIRMAN: So the finance interests
26 have effective control of the company?

27 MR. MOYSEY: That is correct, sir.

28 MR. GEE: I might add in respect of paragraph
29 15 that it is virtually almost true to say that the
30 underwriter-optionee in fact controls the company.

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1 In this particular paragraph we are talking about
2 the broker-dealer who is acting as the principal
3 and is, therefore, the underwriter-optionee. In
4 the case where the broker-dealer is acting strictly
5 as an agent on this 25 per cent and 15 per cent basis,
6 he probably does not control the company.

7 MR. MOYSEY: The broker-dealer does not,
8 but the underwriter does.

9 MR. GEE: The underwriter obtains control.

10 COMMISSIONER BROWN: At page 26, paragraph
11 86 you list the amount that was raised for companies
12 over the past 11 years at \$161 million odd. I am
13 asking you for a guess, but have you any idea how
14 much of that \$161 million would actually have been
15 spent on exploration?

16 MR. MOYSEY: Mr. Gee is the one who
17 prepared these figures.

18 MR. GEE: Well, I would not like to guess.
19 I think that both Mr. Latimer and Mr. Moysey are
20 more familiar with the proportion of exploration
21 cost to administrative cost than I am. These figures
22 represent the amount that went into the treasury
23 of the mining company. However, as far as the
24 normal proportion is concerned, what would you say
25 the proportion of administrative to exploration
26 cost is?

27 MR. LATIMER: Your question is, how much
28 money was actually raised to put that amount of
29 money in the treasury?

30 COMMISSIONER BROWN: No, I am asking how



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 the broker-dealer who is acting as the principal
 and is, therefore, the underwriter-optioneer. In
 the case where the broker-dealer is acting strictly
 as an agent on this 25 per cent and 15 per cent basis,
 he probably does not control the company.

MR. MOSEY: The broker-dealer does not,

but the underwriter does.

COMMISSIONER BROWN: At page 26, paragraph
 26 you list the amount that was raised for companies
 over the past 11 years at \$101 million odd. I am
 asking you for a guess, but have you any idea how
 much of that \$101 million would actually have been
 spent on exploration?

MR. MOSEY: Mr. Gee is the one who

MR. GEE: Well, I would not like to guess.

I think that both Mr. Eastman and Mr. Mosey are
 more familiar with the proportion of exploration
 cost to administrative cost than I am. These figures
 represent the amount that went into the treasury
 of the mining company. However, as far as the
 normal proportion is concerned, what would you say
 the proportion of administrative to exploration
 cost is?

MR. EASTMAN: Your question is, how much

money was actually raised to put that amount of
 money in the treasury?

COMMISSIONER BROWN: No, I am asking how



1 much of this money went into the treasury and actually
2 got spent on the ground.

3 MR. LATIMER: Oh, of the money that
4 went into the treasury , how much was actually spent
5 on the ground?

6 MR. GEE: Some would represent
7 administrative costs.

8 MR. LATIMER: I would say 75 per cent.
9 I do not know whether Mr. Moysey would agree with
10 me or not.

11 MR. MOYSEY: I was going to suggest
12 somewhere between 65 per cent and 80 per cent. At
13 this stage of the game there is very little administrative
14 costs. They do not have big offices or staffs.

15 COMMISSIONER BROWN: The control is
16 such now that the money that actually goes into the
17 company treasury is actually spent on exploration?

18 MR. MOYSEY: There is nowhere else
19 for it to go.

20 MR. LATIMER: The people that are
21 endeavouring to raise the money are naturally most
22 emphatic in regard to getting that money spent on
23 the property. They cannot expect to win a great
24 deal unless the money is spent on the property and
25 there is a possible chance of something materializing
26 from the diamond drilling programme or whatever
27 programme is being carried out. You can rest
28 assured that there are plenty of watch-dogs in
29 regard to the corporate funds which we are looking
30 at here, and which I believe is considered quite



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Nethercut & Young

Toronto, Ontario

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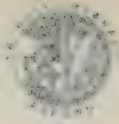
1 sacred.

2 COMMISSIONER BROWN: Well, sometimes
3 the money is spent on acquiring more property, is it
4 not?

5 MR. MOYSEY: Well, the Securities
6 Commission has a few kind words to say if they get
7 into that type of thing.

8 COMMISSIONER BROWN: Well, could you
9 give us another guess as to what this actually
10 costs the public?

11 MR. GEE: As I said before when we
12 were discussing this question, we have no way of
13 knowing at what price it was sold by the underwriter-
14 optionee, but we have guessed in paragraph 82 that it
15 is approximately one and one-quarter or one and one-half
16 times the option prices.



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is approximately one and one-quarter or one and one-half

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1 So I think it probably would be fair to say that
2 one and a quarter to one and a half times this amount
3 is actually received from the public.

4 MR. LATIMERA: It is a very hard question
5 to answer by virtue of the fact that costs from
6 1951 to 1961 have varied so greatly. You would have
7 to go about it in a more technical manner than we
8 have at our fingertips.

9 MR. MOYSEY: That is as close a guess
10 as you can make: one and a quarter to one and a half
11 times, which is your cost of raising that money.

12 COMMISSIONER BROWN: Say it costs the same
13 amount.

14 MR. MOYSEY: All right, it costs 160 million
15 to raise 160 million: a total of 320 million. I must
16 add, I think, on the record that this is not like
17 selling government bonds or high-grade securities.
18 The cost is just not comparable.

19 COMMISSIONER BROWN: On the other hand,
20 all we are interested in is the economic allocation
21 of resources in Canada and how much it costs to get
22 money out of a bank account into the bond.

23 MR. MOYSEY: That is right.

24 COMMISSIONER BROWN: When you compile
25 all these figures you are dealing with companies:
26 how many of these companies actually got as far
27 as production?

28 MR. GEE: Well, I could not even guess.
29 I have material on the number of companies involved
30 in this \$161 million.



10-1-50

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COMMISSIONER BROWN: Say it costs the same

MR. MOSEBY: All right, it costs 100 million

to raise 100 million: a total of 200 million. I want

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all these figures you are dealing with companies:
how many of these companies actually got as far
as production?

MR. GEE: Well, I could not even guess.

I have material on the number of companies involved
in this \$100 million.



1 COMMISSIONER BROWN: Perhaps you could
2 produce that for our staff.

3 MR. GEE: Yes, we could do that, but this
4 relates only to unlisted securities, and a great
5 many of these have become listed and many, particularly
6 from the earlier period, have been reorganized at
7 least once or twice, and what ultimately happened to
8 them would be quite a job to trace down -- how many
9 became producers.

10 COMMISSIONER BROWN: It would be interesting
11 to know what would be the present value of all these
12 shares sold. A lot would be worthless, but some
13 would be worth quite a bit now -- just to see what
14 would be the value today of what the public paid
15 320 million for.

16 MR. MOYSEY: I can think of Consolidated
17 Denison.

18 MR. GEE: It is not in this figure because
19 Consolidated Denison, while it was financed through
20 broker-dealers, was listed at the time.

21 MR. MOYSEY: Well, that is too bad, because
22 I think it is worth about 320 million alone.

23 MR. GEE: That is similarly the case
24 with a great deal of the uranium stocks and copper
25 stocks which have subsequently become producers.
26 They were always listed even though they may have
27 only been selling in the very low pennies when the
28 broker-dealer was financing them: Milliken Lake
29 is the same, and Rio Algom and Quebec Chibougamau.

30 COMMISSIONER BROWN: And only a limited amount



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COMMISSIONER BROWN: It would be interesting

to know what would be the present value of all these shares sold. A lot would be worthless, but some would be worth quite a bit now -- just to see what would be the value today of what the public paid 890 million for.

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COMMISSIONER BROWN: And only a limited number



1 came into this picture?

2 MR. GEE: Yes, or none at all.

3 COMMISSIONER BROWN: But it would give
4 us some idea of what this all resulted in, and I
5 think that is what we are interested in.

6 MR. MOYSEY: Unfortunately, we are at the
7 start of the line, and the end product may be years
8 later and several re-organizations later, or listed
9 on various stock exchanges, and it would be very
10 difficult to give you a comprehensive figure.
11 However, I am sure Mr. Gee will give you an indication
12 for your staff.

13 THE CHAIRMAN: Great importance should
14 be attached to the stocks that have become listed
15 since, because those are the ones ---

16 MR. GEE: Yes, first of all those statistics
17 are not available to us, and it was felt probably
18 those figures are covered in the briefs from the
19 various exchanges.

20 THE CHAIRMAN: I understand they are
21 available to us, because if these all remain unlisted
22 it may be this is the portion of the business that
23 has not done quite so well, whereas the other portions
24 of the business may show where the great increment
25 is.

26 MR. GEE: There is a fair amount of
27 financing on exchanges done by members of the
28 Broker-Dealers' Association that are not members
29 of the exchange itself. They may take part in the
30 primary distribution of a security listed on the



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2 Similarly, members of the exchange who are also members
3 of the Broker-Dealers' Association do a great deal
4 of primary distributions through the facilities
5 of the exchange. I think it would be fair to say,
6 if you were to count up all of the efforts of both
7 members of the exchange and non-members who are
8 members of the Broker-Dealers' Association, they
9 would, between them, account for all of the financing
10 of mining companies in the past ten years. Very
11 little is done by people outside the Broker-Dealers'
12 Association.

13 COMMISSIONER BROWN: You say that one of
14 the basic problems of not distributing treasury shares
15 of a listed mining and oil company through the
16 stock exchange is that all the shares both listed
17 and unlisted have already been issued. You say it
18 is difficult to do it outside the stock exchange,
19 but this does not get down to the basic question
20 of why they are all listed. This is not done with
21 the industrial companies. They only list those
22 that are issued.

23 MR. MOYSEY: I think, to answer that, if
24 you look back through the hearing with the stock
25 exchange that Mr. Somerville answered that question,
26 and it is a technical one, but basically it is this:
27 that industrial companies finance one type of security
28 and they finance with that type of security once
29 and once only. If they finance again they will
30 finance with a different type -- a first preferred, or



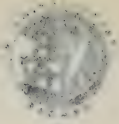
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and once only. If they finance again they will
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1 second preferred. The obvious exception to that
2 is Bell Telephone: Bell Telephone gets financing
3 with its issuance of further common stock. In issuing
4 rights on common stock, that is one way of doing
5 it which has proved not very satisfactory in speculative
6 mining securities, and it is about the only way to
7 finance further common stock once common stock
8 has been issued. If you do it off the board, which
9 is what is done with industrial companies -- if
10 an industrial company brings out another issue, it
11 is off the board and it is listed. But, it is a
12 different type of issue. To do it with a mining
13 company, let us say the XYZ mining company has stock
14 listed on the stock exchange and trading on the floor
15 of the exchange -- it is fluctuating: then, if you
16 say, "We will only list the stock that is issued",
17 all new financing of that company has to be done off
18 the exchange and would have to be done under prospectus
19 with the Securities Commission, and presumably at
20 a fixed price, and here you have a fixed price
21 on a security off the exchange, and it is the same
22 security, the same common stock, that is trading
23 and fluctuating on the exchange. Rightly or wrongly,
24 most exchanges, in Canada at least, feel this is
25 not practical and not in the public interest. Most
26 Securities Commissions feel this way too. So,
27 they have permitted the exemption that primary
28 distribution may take place on the exchange, and
29 it is for that reason that all the authorized capital
30 stock of a mining company is listed even though it



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1 may not all be issued.

2 I will go a little further: in that way
3 the exchange has control over all the further issuance
4 of treasury stock for that particular company because
5 it is listed with the exchange, and so it cannot
6 be sold or issued without exchange permission and
7 control, and it is, of course, in the issuance of
8 that stock that the exchange takes over basically
9 the functions of the Securities Commission in the
10 control of that type of primary distribution.

11 COMMISSIONER BROWN: I know this is the
12 attitude of the stock exchange.

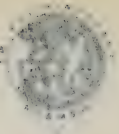
13 MR. MOYSEY: That is correct, sir.

14 COMMISSIONER BROWN: And the attitude
15 of a number of the Securities Commissions.

16 MR. MOYSEY: Right.

17 COMMISSIONER BROWN: But it seems to me
18 there is the disadvantage of doing it through the
19 stock exchange in that the investor does not know
20 what the issued capital is of a company in which
21 he is investing and he does not know that he is
22 buying stock on a primary distribution. How are
23 they going to tell this? This is a problem we
24 discussed with the Toronto Stock Exchange, and I
25 want to know if anybody has done any thinking about
26 how we are going to solve this problem of letting
27 the public know they are, in fact, buying new stock
28 on primary distribution.

29 MR. MOYSEY: Well, we went through this
30 before, and I will say again that the stock exchange



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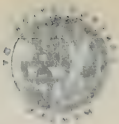


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2 exchange, it notifies any members of the public who
3 wish to place a request with the stock exchange
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5 capital issue on the exchange. All any member of
6 the public has to do is to ask and they will receive
7 that information. Any member of the public who is
8 buying the stock listed on the exchange will do it
9 through a member of the exchange, and all members
10 of the exchange receive filing statements and
11 stock exchange bulletins which are available to their
12 clients. That is as far as any exchange has gone
13 that I know of in this direction. There has been
14 no way found that I know of of running around on the
15 floor of the exchange with the prospectus and handing
16 it to the client with the floor ticket. It does not
17 work that way. Like every method of financing, there
18 are advantages and disadvantages. This is a criticism
19 levelled at the exchanges and all I am trying to
20 outline is what an exchange has done to meet that
21 criticism: that the information is available to
22 anyone interested.

23 COMMISSIONER BROWN: Has the possibility
24 been discussed of having a little statement that goes
25 out with every contract concerning a security that
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27 MR. GEMMELL: Not to overcome that objection.
28 The suggestion has been made.

29 COMMISSIONER BROWN: Just let me finish
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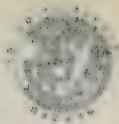


1 contract that this is a security which is under
2 primary distribution, and if he wishes further
3 information it is available? Has this been discussed
4 or tried?

5 MR. MOYSEY: Let me put it this way:
6 I believe -- and I am subject to correction on this --
7 in the exchange quote sheet which goes out every
8 day listing all the trades on the floor that there
9 is an asterisk appears over any security which is
10 in primary distribution, which is the type of thing
11 you are talking about. Now, as to requiring members
12 to put this on confirmations to their clients, no,
13 I have not heard of that as yet.

14 Mr. Gemmell has asked me to add -- and I
15 believe Mr. Brown and I were discussing really an
16 exchange matter -- but Mr. Gemmell wants to make sure
17 it gets on the record that as far as off the exchange
18 is concerned where non-member broker-dealers are
19 concerned and not dealing in securities listed on
20 the exchange, of course, the public does receive
21 the prospectus; the client does receive a prospectus.

22 MR. GEMMELL: Not only that, but the Broker-
23 Dealers' Association in discussing this matter has
24 indicated in this brief, without suggesting any
25 technically mechanical way of achieving it, that
26 where primary distribution is taking place on an
27 exchange that a synopsis of the filing statement
28 could be delivered to the ultimate purchaser with
29 his confirmation. The Broker-Dealers' Association,
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1 along that line could be achieved which would possibly
2 cure the situation.

3 COMMISSIONER BROWN: I think we have to
4 be a little careful here: we are dealing with the
5 Broker-Dealers' Association and not the stock
6 exchange.

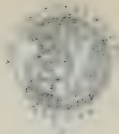
7 MR. MOYSEY: I am wearing two hats here.

8 COMMISSIONER BROWN: Yes, and I do not
9 want to place you in the embarrassing position of
10 purporting to speak for the stock exchange.

11 MR. GEE: That particular matter we have
12 mentioned in paragraph 37 where we have noted that
13 disadvantage and have made the suggestion, without
14 purporting to go into the technicalities of how
15 it can be accomplished, that such a thing might cure
16 that particular criticism.

17 THE CHAIRMAN: There is one thing I wanted
18 to clarify a bit: when a mining company is formed
19 with the intention of distributing its shares, first
20 of all there has to be a property of some kind
21 that it intends to acquire -- a mining property. Take
22 the case of a typical mining property of a mining
23 company: at the time the company is formed a
24 considerable amount of work has been done on the
25 mining property by way of exploration, and one thing
26 and another. Generally, in these cases do the
27 mining claims have to reach the stage of having
28 been patented before the company is formed to acquire
29 them?

30 MR. LATIMER: I believe I am right in saying



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MR. BEE: That particular matter we have
mentioned in paragraph 37 where we have noted that
disadvantage and have made the suggestion, without
purporting to go into the technicalities of how
it can be accomplished, that such a thing might come
that particular criticism.

THE CHAIRMAN: There is one thing I wanted
to clarify a bit: when a mining company is formed
with the intention of distributing its shares, first
of all there has to be a property of some kind
that it intends to acquire -- a mining property. Take
the case of a typical mining property of a mining
company: at the time the company is formed a
considerable amount of work has been done on the
mining property by way of exploration, and one thing
and another. Generally, in these cases the
mining claims have to reach the stage of having
been patented before the company is formed to acquire

them?
MR. LATIMER: I believe I am right in saying



1 they have to reach a stage of development whereby
2 an engineer's report can be acquired that will be
3 satisfactory to the Ontario Securities Commission
4 before the granting of permission to sell shares.

5 MR. GEMMELL: The Commission require an
6 engineer's report.

7 MR. LATIMER: I don't believe an engineer
8 could give a report by just taking a look over some
9 ground unless there had been some outcroppings or
10 trenchings which would give him some reason to write
11 a report.

12 THE CHAIRMAN: There would have to be a
13 sufficient showing of some kind or another to justify
14 public distribution of shares.

15 MR. MOYSEY: I might say, if there has
16 been a significant discovery made in the area, it
17 is conceivable this property might lie within a
18 reasonable distance of some geological theory which
19 would indicate that ore bearing rock went through
20 this property, and it is conceivable this would be
21 done on location alone.

22 THE CHAIRMAN: Then, the people who acquire
23 the mining claims are generally the prospectors or
24 the original developers, are they not?

25 MR. GEMMELL: Yes.

26 THE CHAIRMAN: Something has been done --
27 work has been done and money has been spent by
28 somebody to bring it to the point where it is
29 a sufficiently practical property to justify public
30 distribution; is that a fair way of putting it?



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1 MR. GEMMELL: Yes.

2 MR. MOYSEY: Again, I would take the
3 exception that maybe there has been no work done on
4 the property, but there has been considerable work
5 done on an adjoining property.

6 THE CHAIRMAN: Yes.

7 MR. MOYSEY: So, it is the value of the
8 location.



THE CHAIRMAN: Yes.
MR. MCVEY: It is the value of the

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1 THE CHAIRMAN: Then, all that would be
2 necessary is that the mining claims be staked?

3 MR. LATIMER: Correct, sir.

4 THE CHAIRMAN: And, in some cases, that
5 would be permissive?

6 MR. LATIMER: If they can get an engineer
7 to give a report to the effect that in his humble
8 opinion the geology runs in such a direction that it
9 would make the company's claim sufficient to allow
10 stock to be sold to the public on that alone.

11 THE CHAIRMAN: As I understand it, in
12 respect to an incorporated company of \$3 million of
13 authorized capital, about one-third of the capital
14 has been issued to the vendors. Is that still the
15 case?

16 MR. GEE: It is one-quarter. In a three
17 million share company, the vendor interest, based
18 on a sliding scale, is not to exceed 25 per cent;
19 in other words, 750,000 shares, and not more than
20 10 per cent of the vendor's share interest is to be
21 free from escrow.

22 THE CHAIRMAN: I understand this is all
23 covered in the appendix?

24 MR. GEE: Yes, I believe this is covered
25 in the appendix to our brief.

26 THE CHAIRMAN: Then I do not need to
27 pursue this further. I just wanted to get exactly
28 what information was required.

29 MR. GEE: It is simply a matter that
30 before a prospectus can be accepted for filing, an



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5 necessarily be any work done. Money has been spent.
6 First of all, money has been spent in acquiring
7 the claims, either by the prospector or by a grub-staker
8 of some kind.

9 COMMISSIONER MACKINTOSH: I was interested
10 in your recommendation that there should be national
11 securities legislation. I infer from your brief
12 that the principal reason for advocating this is certainly
13 one of administration, to have uniformity in administrative
14 procedure. Could you tell me some of the handicaps
15 that the present legislation imposes? I gather
16 there has been a movement towards uniformity in
17 the provincial statutes.

18 MR. GEE: I shall mention one, and perhaps
19 some others here can mention additional ones. The
20 excessive time that elapses to get a prospectus
21 completed seems to be one item in that regard. There
22 are a great many others.

23 MR. GEE: It is the position of the Broker-
24 Dealers' Association of Ontario that while there
25 certainly is evidence of uniformity in various
26 provincial statutes -- their wording is similar and
27 in many cases identical -- there is no uniformity
28 in fact and in practice. So far as we are concerned
29 there never will be uniformity of regulation because
30 the statutes themselves account for only about one-tenth

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COMMISSIONER MACKINTOSH: I was interested
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securities legislation. I infer from your brief
that the principal reason for advocating this is certainly
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there has been a movement towards uniformity in
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MR. GEE: It is the position of the Broker-
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certainly is evidence of uniformity in various
provincial statutes -- their wording is similar and
in many cases identical -- there is no uniformity
in fact and in practice. So far as we are concerned
there never will be uniformity of regulation because
the statutes themselves account for only about one-third



1 of the law involved, and the other nine-tenths
2 involve policy decisions, and these vary to a tremendous
3 degree from coast to coast among the various provinces.

4 It is as simple as that. We do not feel
5 there ever will be uniformity, regardless of whether
6 every statute is identical, because of the discretion
7 allowed or provided for in all these statutes to the
8 Securities Commission to exercise their discretion
9 in any way they see fit. This is so broad, and their
10 views are so divergent, that uniformity in fact is
11 impossible.

12 COMMISSIONER MACKINTOSH: There is no
13 tendency for one province to accept the verdict or
14 finding of another province?

15 MR. GEE: There certainly would not seem
16 to be. This may be so in respect to bonds. I believe
17 to a very large degree that issues of bonds and
18 that sort of thing can be cleared through various
19 securities commissions quite easily and virtually
20 simultaneously, but certainly with respect to the issuance
21 of any common stock of oil and mining companies the
22 various jurisdictions are quite divergent.

23 Similarly, the policy varies tremendously
24 with respect to the registration provisions in each
25 statute, so far as the registered broker-dealers
26 are concerned. As we have pointed out, the British
27 Columbia Securities Commission has indicated to us
28 that it simply will not register any more broker-
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1 COMMISSIONER MACKINTOSH: I take it also
2 from your brief that you assume that the federal
3 statute would require regional as against centralized
4 administration. In other words, you would have
5 offices in the different regions or different provinces?

6 MR. GEE: We have not gone into exactly
7 how a Federal Securities Commission should be
8 administered, but it is probable that the acceptance
9 of prospectuses for filing would be a central matter,
10 but the regulation and investigation procedures would
11 probably have to be carried out on a regional basis,
12 very much like the Securities and Exchange Commission
13 does in the United States.

14 The prospectus provisions under the
15 Securities Act (1933) are a central matter. You
16 are always dealing with Washington, but a great deal
17 of the registration of broker-dealers under the
18 Securities and Exchange Act (1934) are carried out
19 regionally.

20 MR. MOYSEY: Mr. Commissioner, I think
21 I might add one comment here, that the Broker-Dealers'
22 Association is in favour of a federal agency, one
23 agency, but it is not in favour of the type of
24 arrangement that they have in the United States where
25 you have a federal agency and you also have all the
26 State agencies. In other words, if this is merely
27 superimposing another jurisdiction on the problems ---

28 COMMISSIONER MACKINTOSH: Ten are bad
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30 MR. MOYSEY: --- then we are not in



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MR. MURPHY: -- then we are not in



1 favour of it, sir.

2 COMMISSIONER MACKINTOSH: Have you given
3 any consideration to whether such a step could be
4 taken under the constitution?

5 MR. GEE: We have not dealt with the
6 constitutional aspects of the thing at all, sir.
7 We do realize that it may very well be impossible,
8 constitutionally, but we have not gone into it at
9 all.

10 COMMISSIONER MACKINTOSH: You make another
11 recommendation in paragraph 62, I think, that the
12 restrictions on the dealer's ~~contact with the public~~
13 should be eased. Presumably this legislation was
14 introduced to restrain abuses. Do you think the
15 abuses were imaginery or that the industry is now
16 better organized and is able to control these abuses?
17 What is the justification for the relaxation?

18 MR. MOYSEY: Mr. Commissioner, I would
19 say paragraph 62 is aimed basically not at the
20 original purpose of this legislation, with which
21 we agree, but it is aimed at the jungle conditions
22 back in the 1940's and 1930's. They must never
23 come back, those days when a stock man could pick
24 up a telephone and call anybody, just open the phone
25 and phone anybody he wanted. Those days must never
26 come back, because it brought on a lot of problems
27 that plagued the industry. In other words, the members
28 of the public must indicate they are interested in
29 speculative securities before they should be approached,
30 but once they have filled out the request card to the



February 11, 1975

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1 effect that they want to find out about company
2 XYZ, then they have indicated they are interested
3 in type of thing. The position of the Association
4 is that then they should no longer have to have this
5 deluge of mail before they can be approached on the
6 ABC company. In other words, once they have entered
7 the fold they are in the fold, and once they are
8 a client they are clients.

9 COMMISSIONER LEMAN: Well, maybe they
10 have been cured.

11 MR. MOYSEY: Well, then, we have to fall
12 back on the fact that we do feel the industry is
13 more closely policed and controlled than it was in
14 those days, and if a person is receiving objectionable
15 calls and is being pestered, then all he has to
16 do is complain to the Broker-Dealers' Association, and
17 I am sure he will not be pestered much longer.

18 COMMISSIONER MACKINTOSH: Is he allowed
19 to sign a different card which indicates he is interested
20 from time to time in being informed about investments
21 or speculative opportunities?

22 MR. MOYSEY: We have appeared before the
23 Ontario Attorney-General at least two or three times
24 during my era, attempting to get this type of card
25 made acceptable -- "I am interested in speculative
26 securities". We are still attempting to get this
27 adjustment made, but as yet we have not been
28 successful. We feel it is reasonable.

29 COMMISSIONER MACKINTOSH: A little further
30 on you ask for a change in the present procedure in

effect that they want to find out about company XYZ, then they have indicated they are interested in type of thing. The position of the Association is that then they should no longer have to have this delay of call before they can be approached on the ABC company. In other words, once they have entered the fold they are in the fold, and once they are a client they are clients.

MR. MCINTYRE: Well, then, we have to tell

back on the fact that we do feel the industry is more closely policed and controlled than it was in those days, and if a person is receiving questionable calls and is being bothered, then all he has to do is complain to the Broker-Dealers' Association, and I am sure he will not be bothered much longer.

COMMISSTONER MCKINNON: Is he allowed

to sign a different card which indicates he is interested from time to time to being informed about investments or speculative opportunities?

MR. MCINTYRE: We have appeared before the

Ontario Attorney-General at least two or three times during my era, attempting to get this type of card made acceptable -- "I am interested in speculative securities". We are still attempting to get this adjustment made, but as yet we have not been

successful. We feel it is reasonable.

COMMISSTONER MCKINNON: A little further

on you ask for a change in the present procedure in



1 respect to cancellation or suspension of registration.
2 I take it the Securities Commissioner looks on this
3 as a sort of injunction to prevent additional harm
4 from being done while a case is under consideration?

5 MR. MOYSEY: In fairness I should state
6 I was Chairman of the Broker-Dealers' Association
7 for five years, and during that time the Chairman
8 of the Securities Commission, Mr. Lennox, without
9 exception -- I believe once or twice there was
10 an oversight -- before any cancellation or any
11 suspension was made, would get in touch with me and
12 let me know what he had in mind and would ask me
13 if I could think of any particular reason why he
14 should not act in a certain way. To that degree
15 there was liaison between the Commission and the
16 Association. But what the Association feels now is
17 that the member himself should have a right to
18 explain his behaviour and, if necessary, defend his
19 behaviour before the suspension takes place. It
20 is just a further step in liaison that we feel should
21 take place because, after all, as the Chairman of
22 the Board, I could have advanced arguments in my
23 members' favour, but the member himself was not given
24 the opportunity to do so. As I say, the member himself
25 was not given the opportunity and he might have
26 a great deal more information of the particular
27 situation, in fact he is almost bound to have, than
28 I would have.

29 COMMISSIONER MACKINTOSH: How rapidly
30 could this be done?



respect to cancellation or suspension of registration.

I am in the position of having to deal with

as a sort of injunction to prevent additional harm from being done while a case is under consideration?

MR. MEYER: In fairness I should state

I was Chairman of the Broker-Dealers' Association for five years, and during that time the Chairman of the Securities Commission, Mr. Bennox, without

exception -- I believe once or twice there was

an oversight -- before any cancellation or any

suspension was made, would get in touch with me and

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was not given the opportunity and he might have

a great deal more information of the particular

situation, in fact he is almost bound to have, than

I would have.

COMMISSIONER HARRINGTON: How reply?

Would this be correct?



1 MR. GEE: How rapidly could a hearing ---

2 COMMISSIONER MACKINTOSH: Is this a
3 long delay or is this comparable to missile bases
4 being built in Cuba?

5 MR. GEE: There is no provision now for
6 notice and a hearing. Presumably there would have
7 to be a time lapse between the notice and the hearing,
8 whether it is forty-eight hours or something that,
9 but in the meantime there are provisions in the
10 Ontario Securities Act for the Chairman of the
11 Securities Commission to act to prevent the broker
12 from distributing stock. He can suspend trading
13 in stock during the period before the hearing, without
14 suspending the broker. He can issue an order seizing
15 the accounts of the broker. So, I mean, there are
16 ample provisions. There are others as well, but
17 there are ample provisions in the Act for the
18 Securities Commission to prevent any harm to the
19 public during this period between the notice and
20 the hearing.

21 COMMISSIONER MACKINTOSH: You do not object
22 to the hearings?

23 MR. GEE: No.

24 COMMISSIONER MACKINTOSH: It is just the
25 actual suspension of the broker prior to him receiving
26 any notice?

27 MR. GEE: Yes, prior to him receiving
28 any notice. In many cases, as we point out, it has
29 happened that the broker has no knowledge that the
30 Commission is even investigating his behaviour until



MR. CHIEF: Now rapidly sound a hearing --

COMMISSIONER WATKINSON: It is a

long delay on its side, impossible to make a pass

MR. CHIEF: There is no provision now for

notice of a hearing. Presumably, there would have

to be a time lapse between the notice and the hearing.

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Ontario Securities Act for the payment of the

Securities Commission to not to exceed the money

from distributing stock. He can suspend trading

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suspending the broker, he can have an order setting

the accounts at the broker. No. I mean, there are

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to the hearing?

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MR. CHIEF: Yes, prior to the receiving

any notice. In many cases, as we point out, it has

happened that the broker has no knowledge that the

Commission is even investigating his behaviour until



1 the Commission investigator walks into his office
2 with an order suspending him. As Mr. Moysey has
3 pointed out, while we will have known perhaps at least
4 a day in advance, the broker himself may not know.

5 COMMISSIONER LEMAN: Can you point to any
6 actual cases of a suspension which later proved
7 unjustified?

8 MR. GEE: We are aware of cases. I would
9 rather not use any names if it could be avoided.
10 We know of cases where we think this has been the
11 fact, that it has subsequently been unjustified and
12 a cancellation has been rescinded, but not without
13 the lapse of considerable time.

14 COMMISSIONER LEMAN: Without the suspended
15 member having done something to remedy his position?

16 MR. GEE: There is at least one particular
17 case where a cancellation was ordered by the Chairman
18 of the Commission, acting within his power under
19 Section 8, and the Commission subsequently finding
20 out the facts on which the order had been based
21 were incorrect, and the broker-dealers' license
22 was rescinded. But there was a lapse of almost a
23 year in the interim. As a matter of fact, it was
24 more than a year; it was about fourteen months.

25 COMMISSIONER MACKINTOSH: I note you also
26 recommend the narrative type of prospectus. Are
27 there any difficulties with this? Why has the
28 preference been for the other type?

29 MR. GEMMELL: No, I have never heard any
30 strong advocates for the existing practice, Mr.



the Commission investigating this case.

with an order accompanying him. As Mr. W. J. Casey was

pointed out, while we will have known persons at least

a day in advance, the proper himself may not know.

COMMISSIONER LEMMON: Are you going to say

second cases of a conspiracy which later proved

MR. JENKINS: We are aware of several. I would

rather not use any names if it could be avoided.

We know of cases where we think there has been the

fact, that it has subsequently been withdrawn and

a cancellation has been requested, but not within

the scope of our investigation.

COMMISSIONER LEMMON: Without the approval

member having done something or not, we are not

MR. JENKINS: There is at least one particular

case where a cancellation was ordered by the Commission

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out the facts on which the order had been based

were incorrect, and the proper document, if any,

was reissued. But there was a lapse of almost a

year in the interim. As a matter of fact, it was

more than a year. It was about two and a half

COMMISSIONER LEMMON: I note you also

recommended the cancellation of your procedure. Are

there any difficulties with that? Why are the

preference been for the other type?

MR. JENKINS: No, I have never heard of



1 Commissioner. I have never heard anyone explain
2 why they thought the present type of prospectus used
3 in Ontario is more desirable. I have heard many
4 criticisms of the narrative type but I do not feel
5 they have any particular validity. One is looking
6 to the ultimate reader of the prospectus, and that
7 is the prospective investing public.

8 COMMISSIONER MACKINTOSH: Would it be your
9 view that the narrative type would provide plainer
10 and fuller information to the prospective investor?

11 MR. GEMMELL: Yes.

12 COMMISSIONER MACKINTOSH: Has this ever
13 been put up to the Securities Commission?

14 MR. GEMMELL: Not to my knowledge, sir.

15 COMMISSIONER MACKINTOSH: What about the
16 filing statements of the Toronto Stock Exchange?
17 Are they adequate?

18 MR. MOYSEY: Here I go with my two hats
19 again. I am Chairman of the Filing Committee of the
20 Stock Exchange, so I have to answer that they are
21 adequate. In all seriousness we do think they are
22 adequate, yes, sir.

23 COMMISSIONER MACKINTOSH: Is there any
24 argument for requiring them in a narrative form?

25 MR. MOYSEY: Well, the filing statement
26 is like a mining prospectus. The filing statement
27 keeps you up to date as to what is happening to a
28 company that has already been listed on the exchange.
29 I think what we are talking about here, to some
30 degree, is whether the listing requirements of the



Commissioner. I have never heard anyone explain why they thought the present type of prospectus used in Ontario is more desirable. I have heard many criticisms of the narrative type but I do not feel they have any particular validity. One is looking to the ultimate reader of the prospectus, and that is the prospective investing public.

COMMISSIONER MARKINTOSH: Would it be your view that the narrative type would provide clearer and fuller information to the prospective investor?

MR. GIMMELL: Yes.

COMMISSIONER MARKINTOSH: Has this ever been put up to the Securities Commission?

MR. GIMMELL: Not to my knowledge, sir.

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1 exchange should be something like the original
2 prospectus of an unlisted company. I cannot get into
3 that because I am not on the Listing Committee of
4 the exchange, but as far as the filing statement
5 is concerned it follows any material change of a
6 company that is already listed and operating, and
7 similarly I think we say in the brief here that the
8 mining prospectus covers material changes in a company
9 that is not listed. Now, as to the narrative approach
10 to listing on the exchange, I am sorry that I cannot
11 give you that information.



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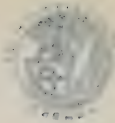


1 COMMISSIONER MACKINTOSH: I was interested
2 in your further recommendation that annual or semi-
3 annual returns be required from firms which have
4 raised money from the public. In other words, there
5 should be continuous reporting of the progress of
6 these firms. This would apply, I suppose, to only
7 unlisted firms, because the listed firms do report
8 to the stock exchange?

9 MR. GEMMELL: The listed firms do report
10 to the stock exchange, but I might say this, that
11 there are listed firms that are on the borderline
12 as to whether or not they should have to provide
13 filing statements, and we can use what you might
14 call moral suasion on these borderline firms that
15 are fairly well established if you want to get off
16 these filing statement requirements to provide the
17 exchange with quarterly reports, and that is the
18 direction in which the exchange is going. Ideally
19 it would be to have every company that is listed
20 provide quarterly reports, and it is the same feeling
21 with the Association; that any movement in the direction
22 of providing continuous information to the shareholder
23 is in the right direction.

24 COMMISSIONER MACKINTOSH: On what authority
25 would these returns you recommend be made?

26 MR. GEMMELL: We contemplate that in
27 Ontario the Securities Commission are an equivalent
28 body. This is aside from another way in which the
29 Association believes such returns are handled, and
30 this is a licensing body which will come about in



COMMISSIONER MARSHALL: I was interested

in your further recommendation that annual or semi-annual returns be reported from firms which have raised money from the public. In other words, firms should be continued regardless of the progress of these firms. It is a good reply. I suppose, to only listed firms, because the listed firms do report to the stock exchange.

MR. GEMMILL: The listed firms do report

to the stock exchange, but I might say this, that there are listed firms that are on the border as to whether or not they should have to provide filing statements, and we can use what you might call moral suasion on these borderline firms that are fairly well established if you want to get off these filing statement requirements to provide the exchange with quarterly reports, and that is the direction in which the exchange is going. Ideally it would be to have every company that is listed

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COMMISSIONER MARSHALL: On what authority

would these returns you mentioned be made?

MR. GEMMILL: We contemplate that

under the Securities Commission are an equivalent. This is a new form another way in which the Association believes such returns are handled, and



1 subsequent years or months, and if these returns
2 indicated an undesirable state of administration, to
3 say the least, or something worse, that the people
4 concerned, if they can't endeavour to approach the
5 public, the licensing body would have a record of
6 their past activities which would sway them and give
7 them some valid reason for refusing to accept the
8 financing plan as set out in the prospectus and prohibit
9 any ---

10 COMMISSIONER MACKINTOSH: Would you propose
11 that there should be provision for making this
12 available to the public and to the shareholders of
13 the company?

14 MR. GEMMELL: Such detail as that the
15 Board wouldn't get into; it wouldn't pursue it that
16 far.

17 COMMISSIONER MACKINTOSH: But you have
18 in mind that the Securities Commission should scan
19 this carefully and make up its mind as to whether
20 this company was proceeding reasonably?

21 MR. GEMMELL: Yes, feeling that it would
22 assist the administrator in serving, so to speak,
23 the people engaging in the financial business under
24 its jurisdiction and ultimately to benefit the
25 investing public.

26 MR. LATIMER: There have been some quite
27 serious examples in the not too distant past of just
28 what we are talking about, and we are trying to
29 correct it and if there is any way in which it can
30 be corrected it would be a big asset to the industry,



subsequent years on Monday, and if these returns indicated an undesirable state of administration, or say the least, or something of that kind, that the people concerned, if they can't otherwise be approached by public, the licensing body would have a record of their past activities which would show them and give them some basis for refusing to accept the

licensing plan as set out in the questionnaire and provide

any --

COMMISSIONER WALKER: Would you propose

that there should be provision for making these available to the public and to the interested parties the company?

MR. GUNN: Such details as that the Board wouldn't get into it wouldn't prevent it from

COMMISSIONER WALKER: But you have in mind that the Securities Commission should review this carefully and take up its mind as to whether

MR. GUNN: Yes, feeling that it would assist the Administrator in reviewing, so to speak, the people engaging in the financial business under its jurisdiction and it doesn't seem to be that the

MR. LAWLER: There have been some definite serious examples in the not too distant past of just what we are talking about, and we are trying to correct it and if there is any way in which it can be prevented it would be a big asset to the industry.

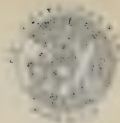


1 and funds are hard enough to raise anyway. I think
2 the idea of the broker-dealers is that it is hard
3 enough to raise funds, and when these funds are
4 put in the treasuries, let us make sure that they
5 are properly taken care of and spent judiciously
6 and wisely and have nothing happen to them when
7 they get there. It is hard enough to get speculative
8 funds into the treasury.

9 THE CHAIRMAN: Thank you very much,
10 gentlemen. This has been very helpful to us and
11 we appreciate it.

12 We will now adjourn our public hearings
13 until January 7, 1963, at 9.15 A.M. in this room,
14 when we will hear the submission of the Department
15 of Finance, to be presented by the Deputy Minister,
16 Dr. K.W. Taylor.

17 --- Adjournment at 12 noon.
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30



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Royal Commission on Banking and Finance

THE BROKER-DEALERS' ASSOCIATION OF ONTARIO

Hearings
held at
OTTAWA

Vol.

53A

Date.

NOV. 1 1962



Official Reporters
J. J. Nethercut and R. J. Young
Toronto, Ont.



Nethercut & Young

Toronto, Ontario

B R I E F

to the

ROYAL COMMISSION ON BANKING AND FINANCE

submitted by

THE BROKER-DEALERS' ASSOCIATION OF ONTARIO

October, 1962



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1914

THE ASSOCIATION OF AMERICAN AND ENGLISH

THE ASSOCIATION OF AMERICAN AND ENGLISH

October, 1914



FOREWORD

This brief enables the Broker-Dealers' Association of Ontario to review its past, explain its present and, within limits, express some hope for the future.

The modest resources of the Association make the collection and presentation of detailed records and statistics impossible. Accordingly, with few exceptions the document is narrative in form. It is hoped that explanations of practises and reasons for proposals have not sacrificed clarity for brevity.

To avoid unnecessary repetition certain short titles have been used. Accordingly, unless the context otherwise indicates, the Commission means the Ontario Securities Commission, the Ontario Act means the Securities Act of Ontario, and the Association means the Broker-Dealers' Association of Ontario.

When the compilation of statistical material used in this brief necessitated the use of estimates, a conservative figure has consistently been used.

The Board of Governors

The Broker-Dealers' Association of Ontario

October, 1962.



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The Board of Government
The Broker-Dealers' Association of Ontario



SUMMARY

The Broker-Dealers' Association of Ontario in the fourteen years of its operation has supplemented the work of the Securities Commission and made substantial contributions towards the improvement of speculative financing.

Under the direction of the Board of Governors requirements and qualifications respecting new applicants for broker-dealer membership and associate membership have been adopted. Financing practises have been controlled in such a way as to remove former abuses and ensure that issuing companies and share purchasers receive a fair chance. These measures involve establishing maximum offering prices based on the amounts received by the issuing company.

The perusal of literature by the Association enables the detection of many violations of the Securities Act and discourages advertising of an extreme nature. In spite of the improvements in speculative financing, sponsored or supported by the Association, there is a limit to the resources of small broker-dealers. If he raises the funds necessary for early exploration and development work, his efforts are justified. Financing of major expenditures relating to production are invariably beyond his capacity.

One means whereby major financing may be obtained is through the facilities of a stock exchange. If through a broker-dealer's initial efforts, a



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One means whereby major financing may be

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1 company can comply with listing requirements, he has
2 completed the first phase of financing. The successful
3 completion of the second phase is also of importance
4 to him since it benefits not only the early share-
5 holders to whom he first recommended the issue, but
6 also the company. For these and other reasons the
7 Association approves of primary distribution on
8 stock exchanges.

9 While individual members may have had
10 difficulties with the Securities and Exchange
11 Commission of the United States, the Association
12 itself has been able to discuss with the Commission
13 mutual problems with candour and courtesy. This
14 favourable atmosphere encouraged the Board of
15 Governors to reach an arrangement in April, 1961
16 whereby members could register as broker-dealers
17 and register issues for public sale with the Securities
18 and Exchange Commission.

19 The all-pervasive impact of legislation
20 on the securities business has resulted in continuing
21 consideration of this subject by the Association.
22 The need for available markets without, as well as
23 within Ontario, has prompted particular consideration
24 of the effect of the legislation of other provinces.

25 Although the provisions of the various
26 statutes may be similar to a large extent, the
27 discretion permitted thereby enables the respective
28 administrators to exercise a great degree of control
29 in accordance with their particular philosophies.
30 The field in which this discretion is most apparent



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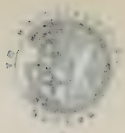
1 is the registration of non-resident broker-dealers.

2 Recent information reveals that require-
3 ments for non-residents vary widely and are of such
4 a nature as to preclude registration of Ontario
5 broker-dealers in other provinces on a reasonable
6 basis. In view of this situation, the Association
7 believes that real uniformity is necessary and that
8 it can best be realized by a regionally administered
9 federal commission rather than the present provincial
10 system.

11 Although extra-provincial markets are
12 necessary to successfully raise adequate speculative
13 capital local markets must not be limited by restrictive
14 legislation or policy. To this end the Association
15 continues its efforts to prompt changes in the Ontario
16 Act, which would permit the broker-dealer to approach
17 prospects more readily and still provide adequate
18 protection to the public.

19 In addition to measures which will assist
20 broker-dealers, the Association feels that certain
21 changes could be adopted for the particular benefit
22 of the public. One suggestion is the adoption of
23 the narrative type of prospectus. Present prospectuses,
24 while "full and true", often cannot be considered
25 "plain" in the eyes of the average man. This
26 suggestion does not mean, however, that the Association
27 approves or recommends the narrative type of prospectus
28 required by the Securities and Exchange Commission.

29 Of benefit equally to the administrator
30 and the purchaser of speculative securities is a



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Of benefit equally to the shareholder
and the purchaser of speculative securities is



1 further recommendation. Although various statutory
2 provisions exist which require reports and returns of
3 company affairs to be made to shareholders and govern-
4 ment departments, the information usually is of a
5 general nature. When a company has raised money from
6 the public, even though it is no longer so engaged,
7 a record of the expenditure of those funds should be
8 available. Such a return, following primary distrib-
9 ution, should be filed with the department or agency
10 under whose jurisdiction the funds were raised.

11 The progress, accomplishments, aims and
12 proposals outlined herein and dealt with more fully
13 in the body of the brief are of considerable satis-
14 faction to the Association. The provision, over an
15 eleven-year period, of approximately \$161,000,000.00
16 for unlisted junior mining and oil companies is
17 significant. While imperfections still exist, and
18 logical improvements are continually being considered,
19 the Association's role has been a constructive one.
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provisions exist which require reports and returns of company affairs to be made to shareholders and government departments, the information usually is of a general nature. When a company has raised money from the public, even though it is no longer so engaged, a record of the expenditure of those funds should be available. Such a return, following primary distribution, should be filed with the department or agency under whose jurisdiction the funds were raised.

The progress, accomplishments, aims and proposals outlined herein and dealt with more fully in the body of the brief are of considerable assistance to the Association. The provision, over an eleven-year period, of approximately \$161,000,000.00 for unlisted junior mining and oil companies is significant. While imperfections still exist, and logical improvements are continually being considered, the Association's role has been a constructive one.



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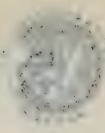
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CREATION OF THE ASSOCIATION

1. The Broker-Dealers' Association of Ontario was created by a public Act of the Ontario Legislature, (Broker-Dealers' Act, 1947 Statutes of Ontario, 1947 Chapter 8), to provide for a measure of self-government and internal regulation among that segment of the securities industry principally engaged in raising speculative capital for natural resources exploration and development. The general conditions which prevailed in the industry prior to the creation of the Association are discussed in greater detail below. At this point it is perhaps illuminating to note that The Honourable Charles P. McTague, a former Chairman of the Ontario Securities Commission referred to the business, in testimony to a Select Committee of the Ontario Legislature in 1951, as "something in the nature of a jungle." Many deplorable practices prevalent at that time did not involve any breach of securities law or regulations, and consequently the Securities Commission was reluctant to interfere. The Broker-Dealers' Association was formed to regulate those people in the industry who were not otherwise answerable to any self-governing body. In short, it is an attempt to impose ethical standards on a portion of the business community.

2. As the members of The Royal Commission are aware, the distribution of securities in Ontario is governed principally by the provisions of The Securities Act R.S.O. 1960, Chapter 363, and Regulations thereunder. By virtue of Section 6 (1)



STATUTE OF THE PROVINCE OF ONTARIO

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As the members of The Royal Commission are aware, the distribution of securities in Ontario is governed principally by the provisions of The Securities Act R.S.O. 1960, Chapter 365, and Regulations thereunder. By virtue of Section 6 (1)



of the statute, no person may trade in securities unless he is registered thereunder. In this regard the Ontario Act contemplates various registration classifications which are similar and in some cases identical to comparable statutes of other Canadian provinces. No other province, however, has an association of broker-dealers created and recognized by legislative action, and accordingly the Ontario Securities Act is unique among provincial securities legislation in defining a "broker-dealer", as a member of the Broker-Dealers' Association. (Section 1 (b))

3. In order to give efficacy to the Broker-Dealers' Act, 1947 it is the policy of the Securities Commission to request any applicant for registration as a broker-dealer to first apply for membership in the Broker-Dealers' Association. The Board of Governors of the Association in turn, apprise the Commission of its willingness to accept or reject that applicant as a member. There are rare exceptions to this procedure which are confined to individual cases where the Board determines that the nature of the business contemplated by the applicant is so removed from the normal type of business carried on by members that audit and other requirements and/or regulations of the Association would impose an undue hardship. (Examples of such cases are firms which deal solely in the distribution of mutual funds, real estate syndicates or participations). In these instances it is the Board's understanding that such



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(b)

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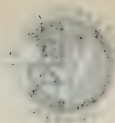
a firm will not engage in general trading with the public.

4. After coming into force of the Broker-Dealers' Act, 1947 and the necessary amendments to the Securities Act referred to above, all firms registered at that time as broker-dealers, including members of the Toronto Stock Exchange, were required to become members of the Association. The table below shows the membership by years according to various classifications;-

TABLE SHOWING MEMBERSHIP OF THE BROKER DEALERS' ASSOCIATION FROM 1951 to 1961

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Non											
Members	151	120	116	97	96	83	88	79	84	84	78
T.S.E.											
Members	28	30	30	32	31	31	31	30	28	26	25
T.S.E.											
Total	179	150	146	129	127	114	119	109	112	110	103

5. The Association is of the opinion that it would be unrealistic to infer any particular trend from the figures contained in the above table. The principal factor which might encourage an increase or decrease in mining or oil financing, and therefore an increase or decrease in the number of broker-dealers, is the degree of popular interest in the development of natural resources. Infrequently circumstances peculiar to this area of the industry do occur with a noticeable decrease in membership in the Association and a similar decrease in the number of those retaining registration. Such



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conditions obtained during 1953 and 1954 and again from March 1961 to the present time and are discussed in greater detail later in this submission. Many registrants at such times withdraw from business in anticipation or realization of financial loss.

6. In addition, members may be expelled for failure or inability to comply with the Association's audit requirements. Registration by the Ontario Securities Commission may be revoked as a result of independent Commission investigation or following information supplied to the Commission by the Association. Cancellation of registration by the Commission means automatic and simultaneous expulsion from membership in the Association (Regulation 39).

7. Aside from Commission action, the Board of Governors of the Association may fine, suspend or expel a member, only after having granted the member a hearing pursuant to Regulation 34 -

(1) Any censure, fine, suspension or expulsion under regulation 33 may be imposed or ordered only at a meeting of the Board of which notice in writing together with a copy of the complaint or charge has been given to the member or associate member concerned either by delivering or by mailing it by prepaid letter to his or its address as shown on the books of the Association at least 48 hours before the time of the meeting.

(2) The member or associate member shall

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2. from March 1961 to the present time and are discussed

3. in greater detail later in this subsection. Many

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13. automatic and simultaneous expulsion from membership

14. in the Association (Regulation 59).

15. Aside from Commission action, the Board

16. of Governors of the Association may fine, suspend or

17. expel a member, only after having granted the member

18. a hearing pursuant to Regulation 54 -

19. (1) Any censure, fine, suspension or

20. expulsion under regulation 55 may be imposed

21. or ordered only at a meeting of the Board

22. of which notice in writing together with

23. a copy of the complaint or charge has been

24. given to the member or associate member

25. concerned either by delivering or by mailing

26. it by prepaid letter to his or its address

as shown on the books of the Association at

least 48 hours before the time of the meeting.

(2) The member or associate member shall



1 be entitled to be present or represented
2 at the meeting and to be heard in his or
3 its own defence and to call, examine and
4 cross-examine witnesses.

5
6 (3) Where the member or associate member
7 neglects or refuses to attend or to have his
8 or its representative at the meeting, the Board
9 may proceed in his or its absence.

10 (4) The Board may adjourn the meeting
11 from time to time and from place to place
12 without further notice.

13
14 8. FACTORS AFFECTING GROWTH

15 Because of the Association's limited facilities,
16 statistical evidence of increasing concentration, or
17 the reverse, is unavailable. At times, some tendency
18 toward greater concentration might seem to be the case.
19 This is a result of restriction on sources of
20 speculative capital and not of competitive success
21 of those remaining. Over a period of time, some firms
22 have tended to carry on business in Ontario only,
23 while others have concentrated their efforts primarily
24 in the United States. With the American source of
25 funds severely limited, the firms affected, tended
26 largely to withdraw from business or become inactive.
27 Ontario thus became the principal source of capital
28 and those firms active in Ontario have probably
29 continued to conduct their business as before,
30 relatively unaffected by the factors affecting the



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others. These remaining active registrants have not expanded their operations to encompass the fields abandoned by the retiring broker-dealers.

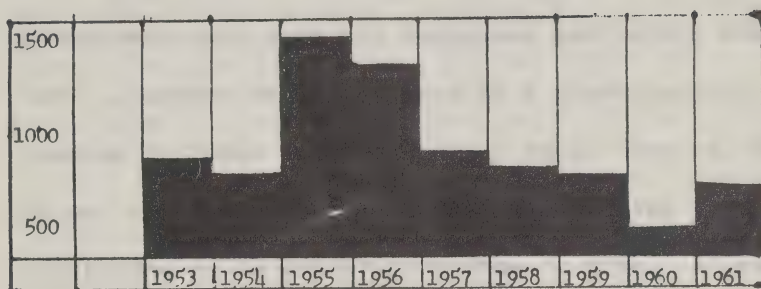
9. The growth of the industry depends almost entirely on the public desire for speculative securities. Overall stock market trends in Canada and the United States, periods of higher than normal interest rates may effect this public appetite to some degree. No exact data in this regard is available to the Association but the graphs below may justify some conclusions.



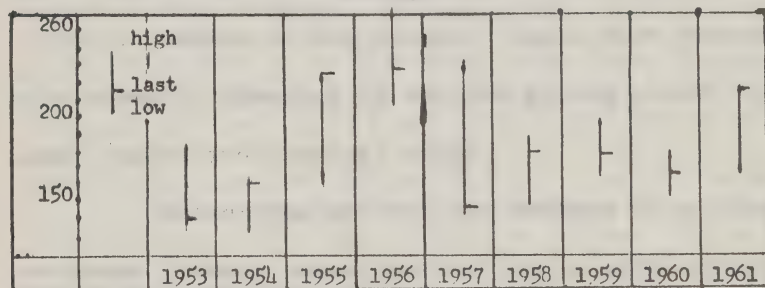
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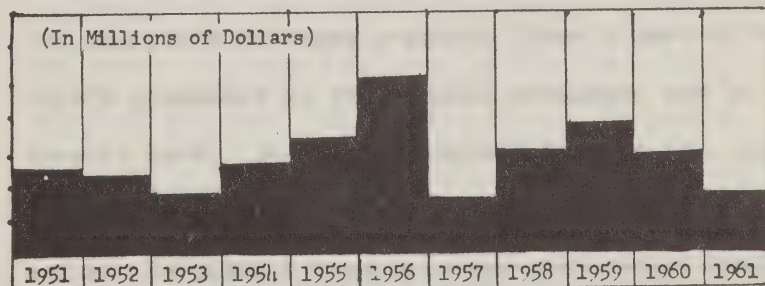
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Share Volume (in Millions) on the Toronto Stock Exchange



Base Metal Index * Toronto Stock Exchange



Funds Raised for Unlisted Mining and Oil Companies
by Members of the Broker - Dealers' Assn.



Chart showing the (in Millions) on the Y-axis

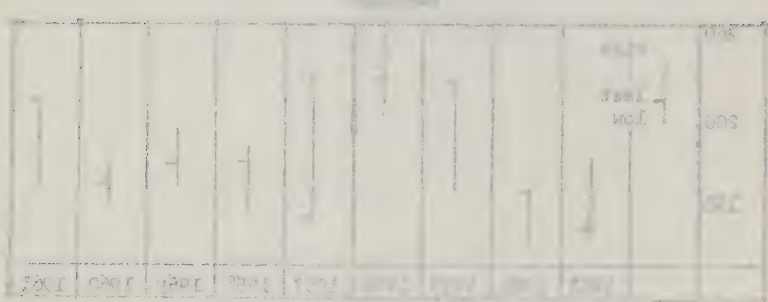


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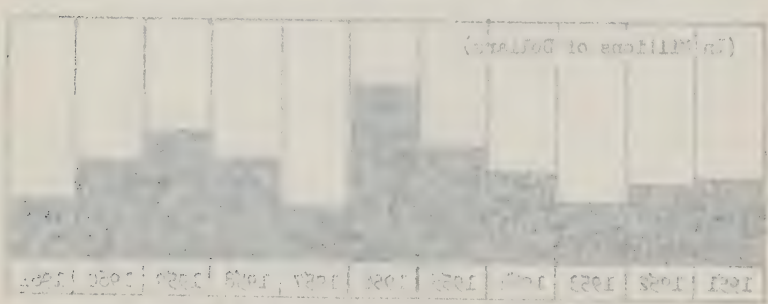


Chart showing the (in Millions) on the Y-axis



INTERNAL BROKER-DEALER ORGANIZATION

10. The internal organization of a broker-dealer varies according to the type of business carried on. Broker-dealers other than exchange members typically have small size in common. There is usually only one person who must make all decisions and rarely more than two. A broker-dealer engaged in a predominantly trading business requires only a small clerical staff. He may retain traders to assist him, giving them directions as to policy from time to time. A larger group of Association members engage in direct distribution of shares to the public. Again such businesses are normally operated by one man giving orders to a small sales and clerical staff.

11. Broker-dealers who are members of a stock exchange in many cases operate one or more branch offices. Data concerning policies and practices in the operation of these branches forms a part of the briefs presented by the various exchanges and is not treated here. In the past broker-dealers not included in the above group have rarely opened branch offices, and at the present time only one such broker-dealer actively operates what could be considered a branch. Factors which discourage the maintenance of a branch include such things as difficulty in obtaining competent administrative staff to ensure capable management, difficulty in justifying increased overhead and unfamiliarity with the law of a "foreign" jurisdiction. The very nature of broker-dealer business as outlined above makes branch operation uneconomic.

PROXIMATE ORGANIZATION

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1 METHODS OF SPECULATIVE FINANCING - ROLE OF THE BROKER
2 DEALER

3 12. New mining ventures may be financed in many
4 ways. During the earliest stages of exploration
5 funds may be provided by an individual, an under-
6 writing company, a mining company or a syndicate of
7 individuals or companies. At some point in the
8 development a decision is made as to whether or not
9 public funds should be sought. If the exploration
10 programme is financed by a large mining or holding
11 company, it is possible and probable that no equity
12 capital will be raised publicly even to put the mine
13 into production. If the venture has been financed
14 by a group or an individual, a public company may be
15 formed or it may be turned over to a major company
16 for management and development on a share exchange or
17 royalty basis. An objection to this latter method
18 is that control can rarely be retained by the original
19 sponsors. In rare instances capital has been
20 supplied by such institutions as the Industrial
21 Development Bank, but before an application could be
22 made for a loan considerable money has already been
23 spent to prove a bankable asset.

24 13. The usual practice with few exceptions is to
25 approach the general public. This is particularly
26 true in the initial stages of development. Normally
27 a company can finance acquisition and exploration
28 through the sale of its shares. The equipment
29 necessary for production often requires expenditure
30 of more capital than can be raised in this manner



ways. During the earliest stages of exploration funds may be provided by an individual, an underwriting company, a mining company or a syndicate of individuals or companies. At some point in the development a decision is made as to whether or not public funds should be sought. If the exploration programme is financed by a large mining or holding company, it is possible and probable that no equity capital will be raised publicly even to put the mine into production. If the venture has been financed by a group or an individual, a public company may be formed or it may be turned over to a major company for management and development on a share exchange or royalty basis. An objection to this latter method is that control can rarely be retained by the original sponsors. In rare instances capital has been supplied by such institutions as the Industrial Development Bank, but before an application could be made for a loan considerable money has already been spent to prove a bankable asset.

15. The usual practice with few exceptions is to approach the general public. This is particularly true in the initial stages of development. Normally a company can finance acquisition and exploration through the sale of its shares. The equipment necessary for production often requires expenditure of more capital than can be raised in this manner.



1 and consequently debt financing or agreement with a
2 major producer is the only solution.

3 14. Companies seeking risk equity capital usually
4 do so through the medium of broker-dealers. It is
5 his function to raise this initial speculative capital
6 to explore for and develop natural resources. The
7 methods by which he performs this function can be
8 classified roughly into three or four principal
9 categories although each of these in turn is capable
10 of infinite variation;

11 (a) He may act as a principal, underwriting the
12 issue on his own or a client's behalf. Such
13 underwritings may be accompanied by one or
14 more options to purchase shares at prices
15 scaled upwards from the underwriting price.
16 These options are not a requirement of any
17 securities regulations but if granted by the
18 company they must comply insofar as price, size
19 of option and spread between each option with
20 specific policy of the Association and the
21 Commission.

22 (b) The broker-dealer may act as an agent for an
23 underwriter or underwriter/optionee receiving
24 a commission on the distribution of the shares.
25 Where the broker-dealer simply fills orders
26 received from the public or other brokers but
27 makes no effort to obtain distribution, it is
28 customary to charge a commission equal to the
29 commission authorized by the Toronto Stock
30 Exchange for mining company shares. In the



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1 alternative situation where the broker-dealer
2 is expected to approach the public directly
3 and sell the shares entirely through his own
4 efforts, he generally receives a commission of
5 up to 25% of the selling price and may in
6 addition receive a contribution toward his
7 selling expenses of up to 15% of the selling
8 price.

9 (c) The broker-dealer may enter into an agreement
10 with the mining company, distributing shares
11 as its agent directly from the treasury at a
12 price set by the directors. Under such an
13 arrangement the broker-dealer receives a
14 commission similar to that of his counterpart
15 who acts as agent for an underwriter/optionee.
16 The directors, in setting a selling price
17 cannot ignore the price-spread policies of the
18 Association (which is dealt with in detail
19 elsewhere in this brief) nor can the net
20 amount receivable by the treasury after
21 deduction of commissions and selling expenses
22 be less than ten cents. One possible
23 disadvantage to this system is that the
24 Commission's policy in respect to the maximum
25 number of shares to be taken down from the
26 treasury at any particular price may be
27 circumvented. This objection can be overcome
28 by obtaining any necessary undertakings from
29 the directors prior to accepting the prospectus
30 for filing.



up to 25% of the selling price and may in addition receive a contribution toward his selling expense of up to 15% of the selling price.

(c) The broker-dealer may enter into an agreement with the mining company, distributing shares as its agent directly from the treasury at a price set by the directors. Under such an arrangement the broker-dealer receives a commission similar to that of his counterpart who acts as agent for an underwriter/optionee. The directors, in setting a selling price cannot ignore the price-spread policies of the Association (which is dealt with in detail elsewhere in this paper) nor can the net amount receivable by the treasury after deduction of commissions and selling expenses be less than ten cents. One possible disadvantage to this system is that the Commission's policy in respect to the maximum number of shares to be taken down from the treasury at any particular price may be circumvented. This objection can be overcome by obtaining any necessary undertakings from the directors prior to accepting the prospectus filing.



(d) The last major type of financing plan is the case where the broker-dealer acts as a principal purchasing the shares from the underwriter/optionee at a 1¢ advance on the original underwriting or option price.

As mentioned above there are a great many variations within each classification and usually a prospectus contains a financing plan which combines more than one of the above methods.

RELATIONSHIP OF BROKER-DEALER TO ISSUING COMPANY

15. Exact figures are not available but it is safe to say that currently in many cases the broker-dealer controls the issuing company. He may be a director but more often is not. He does, however, control the board by virtue of his ownership of a large block of shares. Every company seeking funds has a "promoter" who exercises such control. If the broker-dealer is not the promoter then very likely the person who is, is a non-registrant. The Association believes that the public interest and the interest of the industry is better served where the person having the ultimate responsibility for a company is registered in some way. Although it may appear that where a broker-dealer has a significant voice in the affairs of the company whose shares he is selling the speculating public might be at a disadvantage, such is not, in fact, the case. On the contrary the dealer is so related to the issue that he is unable to divorce himself from responsibility. He is at all times well-informed as to the real affairs of the



1 company both as to its financial status and its field
2 programme.

3 16. Even though the broker-dealer may be the
4 controlling shareholder, underwriter, a director and
5 distributor of the company's shares, there is not
6 necessarily a conflict of interest. Securities'
7 regulations and Association requirements make it
8 virtually impossible for a broker-dealer to benefit to
9 the public detriment as a result of these relations.
10 Shares received from property, or promotional services,
11 underwritten shares and other pertinent information
12 must be set out in the prospectus which by law must be
13 presented to the purchaser not later than the date of
14 the confirmation and receipt of payment. In addition
15 every letter, circular or advertisement which contains
16 a recommendation to purchase or offering of securities
17 must set out the interest of the broker-dealer in the
18 sale of the shares, and clearly specify that it is a
19 speculative security.

20 17. During the time that the shares of the
21 company are in the course of primary distribution any
22 material change must be the subject of an amendment
23 to the prospectus. No property can be sold to the
24 company and funds removed without such an amendment.

25 DEVELOPMENT OF CURRENT CONTROLS

26 18. This protection did not always exist.
27 Prior to the Ontario Securities Act of 1945 and the
28 formation of the Association, a situation such as the
29 following could and often did occur. Out of an
30 authorized capital of a mining company of three million



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to the prospectus. No property can be sold to the

company and funds removed without such an amendment.

DEVELOPMENT OF CURRENT CONTROLS

This protection did not always exist.

formation of the Association, a situation such as the

following could and often did occur. Out of an

authorized capital of a mining company of three million



1 shares policy permitted one million vendor's shares
2 of which 10% or 100,000 shares were immediately free
3 from escrow. Policy also permitted one share to be
4 released from escrow for each share purchased from
5 the treasury. It was possible to purchase 900,000
6 shares for an average of 5¢ per share and then to
7 obtain a release of the 900,000 vendor's shares. As
8 a result, the security dealer, who had set up the
9 company, received 1,900,000 shares for \$45,000. plus
10 legal expenses and the cost of the property. These
11 could be sold to the public for an average of more
12 than 25¢ per share or almost one half a million
13 dollars. The issue could then be dropped and the
14 company put in the hands of a professional secretary
15 who was paid a monthly stipend for not answering any
16 letters from shareholders and not filing annual
17 returns for the company with the Provincial Secretary's
18 Department until its charter was taken away. In some
19 cases, the small treasury of the company was depleted
20 by the acquisition of properties which the security
21 dealer had purchased for next to nothing and sold to
22 the company at a substantial profit.

23 19. At this time also there was a widespread
24 practice of security dealers and their salesmen
25 impairing competitors' financing efforts. One way
26 was to obtain lists of shareholders and persuade them
27 to sell the shares which they had recently purchased
28 in one speculative issue and buy shares of another.
29 Another was for a salesman to move from one dealer
30 to another and take the names, addresses and telephone



1 numbers of people to whom he had previously sold shares.
2 The practice is called "switching" and it is the type
3 of practise which is unethical and harmful to the
4 securities business generally.

5 20. The literature sent out by broker-dealers
6 at that time was flamboyant, exaggerated, frequently
7 misrepresentative and sometimes violated the law.

8 The steps taken to curb this situation are many and
9 detailed but are based upon a requirement that members
10 (except members of the Exchange) must submit all
11 material to the Association office for perusal prior
12 to publication.

13 21. Another major source of trouble was the
14 markup of the selling price to the public of the
15 security over the price at which they were taken down
16 from the treasury. This spread was often completely
17 unjustified by exploration results at the company's
18 property. In order to correct this evil, the Board
19 introduced price spread requirements and commenced
20 fixing the initial maximum price at which new issues
21 with underwritings or options outstanding could be
22 offered to the public. Subsequently these requirements
23 were extended to cover increases in the maximum offering
24 price by members.

25 22. The mechanics of the operation are simple
26 and designed to avoid unnecessary delays. The broker-
27 dealer writes a letter to the Secretary requesting
28 that a maximum offering price be fixed and encloses
29 two copies of the latest prospectus, financial statements
30 and reports accepted for filing by the Ontario Securities



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Commission. If he wishes an increased maximum offering price, he also encloses a letter from an officer or the solicitor for the issuing company stating the securities purchased and the proceeds received therefrom. After studying the material submitted, the Secretary fixes the maximum or increased maximum offering price according to a schedule and advises the broker-dealer accordingly if it is a straight-forward case. However, if the Secretary has the slightest doubt about the matter, it is held over until the next meeting of the Board of Governors when the Board may decide on a variation from the schedule.

UNDERWRITING PRACTISE

23. "Underwriting" in the strict English sense is rare in Canadian corporate experience. Occasionally a company to assist in the financing of a subsidiary will undertake to purchase any shares of a specified offering not taken up by public subscription, but instances are quite uncommon.
24. What is commonly understood as "underwriting" in Canadian practice is in fact an agreement to firmly purchase a specified number of shares at a specific price and within a specified time limit. This agreement may or may not provide for options on additional shares under certain agreed terms and conditions. Such agreements must be set out in a prospectus if public distribution is considered and therefore must comply with established policy of the Securities Commission. Prior to 1950, there were no firm rules regarding underwritings and options, and some of the



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1 resultant drawbacks have been reviewed above. The
2 Board of Governors of the Association early in 1950
3 offered comprehensive suggestions to remedy the
4 situation which were subsequently embodied in a
5 statement of policy by the Securities Commission.
6 (Appendix A)

7 25. The rules prescribed therein have affected
8 underwriting and option agreements ever since. It
9 has been said that this form of financing is unique to
10 Canada; if this is so it may also be said that a
11 number of Canadian mines owe their existence today to
12 it. Some criticism of the system is based on the
13 argument that options mislead the share purchasers.
14 This conclusion is difficult to accept in view of the
15 requirements of full disclosure and delivery of a
16 prospectus, which are now almost universal across
17 Canada.

18 26. One difficulty which may affect a broker-
19 dealer who is also the underwriter and optionee is the
20 view held by the Securities Commission. If develop-
21 ments at the property are disappointing, distribution
22 may prove too difficult and options may expire. The
23 company may subsequently acquire a new property and
24 the broker-dealer may wish to undertake further
25 distribution based on a new agreement. Quite often the
26 Securities Commission requires that the new agreement
27 begin where the old left off, regardless of altered
28 conditions. In this situation, maintaining an orderly
29 market is virtually impossible and distribution is
30 restricted by an offering price too high to find public
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27. Another form of "underwriting" has become fairly popular in recent years. It is known widely in the United States where it is referred to as a "best efforts underwriting". Since there is no firm commitment of any kind it is not an "underwriting" at all but rather a form of merchandising. The broker-dealer assumes no obligation but acts as an agent for the company in the distribution of an unspecified number of shares directly from the treasury of the company, at an agreed rate of commission. The practice has taken a somewhat more sophisticated form in the United States, where it is normal to offer a specific number of shares (usually including a block of previously issued shares owned by directors or principal shareholders). A further refinement, seldom used thus far in Canada, is a provision for return of subscriptions in the event that a specified minimum sum is not realized within a given time.

THE EXISTENCE OF TRENDS?

28. It is impractical to attempt to deal exhaustively with factors which effect the success of mining and oil financing. Who can say what truly motivates people in the purchase of speculative securities? Undoubtedly easier money and widely publicized trading activity do have something to do with it. Another factor is the importance of the mineral to the economy, although by itself it doesn't seem to be conclusive. There was a great deal more glamour surrounding uranium in 1951 than lithium or helium in 1960; more speculative activity over copper

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1 in 1956 than silver in 1962.

2 29. Individual broker-dealers may be more
3 successful than others because they provide more
4 beneficial information or more likely because they
5 gauge public demand more accurately. The experience
6 of the past in the absence of statistical data, does
7 not appear to shed much light on probable future trends
8 except in minor areas.

9 LIMITATIONS OF THE BROKER-DEALER

10 30. As has been indicated more than once thus
11 far, the broker-dealer provides the "grass-roots"
12 financing of a company - the early exploratory work
13 which may include geophysical and geological surveys,
14 diamond drilling, rehabilitating old workings, engineers'
15 fees, etc. After this has been done and on the basis
16 of the information thereby obtained, a decision can be
17 made to put the property into production. Major
18 expenditures such as shaft-sinking, mills, railroad
19 lines, etc. may be required. Financing such expenditures
20 is normally beyond the capacity of a small broker-dealer.
21 The alternatives available have been discussed earlier
22 but include major mining or holding company participation,
23 forming a selling group of broker-dealers, debt financing
24 with the aid of investment dealers, reorganization of
25 the capital stock of the company to provide for new
26 shares and listing upon a stock exchange to allow wider
27 distribution.

28 31. Some areas of mining are by their nature
29 difficult and impossible for a broker-dealer to finance.
30 Such a mineral is iron ore, requiring as it does, vast



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1 expenses of property, necessitating huge exploration
2 funds. Usually only major companies attempt such
3 programmes. However, there are exceptions in the case
4 of high grade deposits and surface showings.

5 32. Up until recently broker-dealers have
6 rarely participated in the financing of industrial or
7 investment companies. With the current upsurge in
8 secondary industries and the apparent public demand for
9 securities of these companies, many broker-dealers have
10 engaged in this field.

11 33. Members of the Association who are not
12 members of the Exchange have not normally engaged in
13 the sale of bonds, either government or corporate nor
14 of securities issued by mutual funds. This is true of
15 the present and it is expected will continue to be the
16 case.

17 PRIMARY DISTRIBUTION ON STOCK EXCHANGE

18 34. The Association approves of primary distri-
19 bution being carried out on a stock exchange. As has
20 been said repeatedly, it is the function of the broker-
21 dealer to provide the initial impetus. If through his
22 efforts, the company can eventually comply with the
23 listing requirements he has fulfilled this function.
24 Once listed, further financing is more easily obtained,
25 distribution is much wider, and public acceptance is
26 greater.

27 35. Primary distribution on any exchange has
28 many concrete advantages to the company. Probably the
29 most important is the speed with which material changes
30 such as property acquisition and new underwritings can



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1 be approved. It is extremely important to a company
2 seeking funds, and able to acquire property in a widely
3 publicized area to obtain approval for that acquisition
4 while public demand for shares of companies in the
5 area continues. Under the system of filing statements
6 presently used by our major exchanges, this benefit
7 is available whereas the filing of an amendment to a
8 prospectus of an unlisted company may be a protracted
9 matter. In such instances the opportunity is lost.

10 36. In the event that primary distribution of
11 listed mining and oil companies was removed from the
12 exchanges, it is submitted that the problem created
13 is more serious than any existing objection. Since
14 mining and oil companies generally have only one class
15 of share, the whole authorized capital is listed
16 rather than the issued capital only as in the case
17 with industrials. With primary distribution removed
18 it would be impossible to differentiate between shares
19 being distributed initially and those shares already
20 trading in secondary distribution on the floor. The
21 result would be an undesirable situation for the
22 company, the broker-dealer and the public. One
23 possible solution to this problem is to suspend
24 trading on the exchange during that period when the
25 primary distribution is being carried out. However,
26 this seems to be an unduly severe penalty to impose
27 upon a company seeking new capital.

28 37. The only aspect of the existence of primary
29 distribution on an exchange which could be considered
30 a disadvantage is that the buying public may not be



... It is extremely important to a company seeking funds, and able to secure property in a widely published area to obtain approval for that acquisition while public demand for shares of companies in the area continues. Under the system of filing statements of prospectus of an unlisted company may be a practical matter. In such instances the opportunity is lost. In the event that primary distribution of listed mining and oil companies are removed from the exchange, it is submitted that the problem created is more serious than any existing objection. Mining and oil companies generally have only one class of share, the whole authorized capital is stated rather than the issued capital only as in the case with industrials. With primary distribution removed it would be impossible to differentiate between shares not yet distributed initially and those shares already trading in secondary distribution on the floor. The result would be an undesirable situation for the company, the broker-dealer and the public. One possible solution to this problem is to suspend trading on the exchange during that period when the primary distribution is being carried out. However, this seems to be an unduly severe penalty to impose upon a company seeking new capital.

The only aspect of the existence of primary distribution on an exchange which could be considered an advantage is that the buying public may not be



1 aware there is distribution going on. He does not
2 receive a copy of the filing statement except upon
3 request and does not therefore have those rights of
4 rescission available to the purchaser of unlisted
5 stocks under the provisions of the Securities Act.
6 He must, without consciously deciding, rely solely
7 upon the protective facilities of the exchange itself.
8 While this is a valid criticism it should be possible
9 to overcome by providing for some notice to the client
10 similar to delivery of prospectus. In other words,
11 while cogent it does not outweigh the advantages of
12 such distribution through exchange facilities.

13 THE MECHANICS OF DISTRIBUTION

14 38. New issues may be distributed in many ways.
15 Upon acceptance for filing of the prospectus by the
16 Securities Commission and having received a maximum
17 offering price from the Broker-Dealers' Association,
18 the broker-dealer contacts those people with whom he has
19 been in the habit of trading. This contact may be by
20 mail or telephone and while it sometimes contains a
21 recommendation to purchase the security, more emphasis
22 is usually placed on further information to come.
23 To supplement these potential purchasers, he sends
24 what is called a "lead-getter" to persons with whom
25 he has not previously done business. This is usually
26 an institutional type of direct mail offering the
27 services of the broker-dealer in all facets of the
28 securities business. Normally, it contains little
29 or no mention of the mining company in which the
30 broker-dealer is interested and simply asks the



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1 recipient to return a card requesting information.

2 39. Those who return this card, receive the
3 broker-dealers' weekly market letter, with current
4 information on market and metal trends with particular
5 emphasis on mining and oil speculatives. Latest
6 information on the exploratory progress of the company
7 or companies in which the broker-dealer is interested
8 are also often included. It is the practice of many
9 broker-dealers to prepare a somewhat elaborate brochure
10 about the metal sought and the company, which is sent
11 soon after a card is received. At some point in this
12 sequence (which varies from broker-dealer to broker-
13 dealer) a formal offering is made to the correspondent
14 and at a later date, the normal procedure is to contact
15 him by telephone. At the same time many broker-
16 dealers retain the services of salesmen who visit
17 clients at their homes and businesses on a personal
18 basis. Because of this wide range of procedural
19 difference one cannot generalize on the relative
20 importance of these various selling methods. Some
21 firms develop a clientele large in number and very
22 loyal. Every broker-dealer constantly seeks to build
23 up a solid client relationship to the extent that such
24 is possible in the speculative field. Some broker-
25 dealers prefer not to have any clients at all dealing
26 instead only with other brokers.

27 SALESMEN

28 40. Any salesman employed by a broker-dealer is
29 required to hold associate membership in the Association
30 except in the case of salesmen employed by exchange



Patented March 1, 1910

A. 29

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1 members. This latter group require approval of the
2 Exchange as customers' men. The number of associate
3 members as at March 31, 1962 was 124. It is considered
4 likely that this amount has decreased considerably
5 since that date, however, exact figures are only
6 obtainable as of the renewal date in each year. During
7 the past ten years the greatest number of salesmen
8 employed by broker-dealers was 300. It is interesting
9 to note that the number of salesmen registered to
10 sell mutual funds in Ontario was 478.

11 WHO BUYS SPECULATIVE SECURITIES

12 41. No accurate description of the purchasers of
13 speculative securities is possible. Such individuals
14 have little else in common and come from every
15 occupational, income, age and geographical group and
16 area. It can probably be taken for granted, however,
17 that individuals account for a large part of the
18 buying in this field. Institutions such as banks,
19 insurance companies and mutual funds are not a signif-
20 icant factor but perhaps mining, oil and holding
21 companies do from time to time trade in large numbers
22 of speculative shares. It is safe to say however
23 that even these companies generally confine themselves
24 to more or less established junior ventures and do
25 not as a rule purchase shares in new and unproven
26 prospects.

27 42. The nature of the speculative business is
28 quite often such that the length of time that
29 securities are held is relatively short. Portfolios,
30 therefore, tend to increase and decrease the amounts



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1 of speculative stock held relative to investment
2 securities very rapidly. Only when all divest at once
3 can any "trend" be diagnosed. Since most broker-
4 dealers (excluding exchange members) do not service
5 a client's whole portfolio but simply a portion of
6 it, no recognizable trend can be ascertained.

7 MARKETS OUTSIDE ONTARIO

8 43. The importance of markets in the provinces
9 other than Ontario cannot be over-estimated. At the
10 present time many members of the Association have access
11 to these markets but these are firms which are also
12 members of the Toronto Stock Exchange and which are
13 able to afford the maintenance of branches in principal
14 cities across the country. Small broker-dealers who
15 account for a great deal of the financing of new
16 issues do not have access to any markets other than
17 Ontario because of the restrictive and prohibitory
18 nature of provincial securities legislation generally.
19 In the opinion of the Association the development of
20 natural resources is a national concern and benefit.
21 It should not be necessary for Ontario natural resources
22 to be financed solely in Ontario, and Alberta oil solely
23 in Alberta. Such development benefits all Canadians
24 and all Canadians should have an opportunity to share
25 in it. At the present time almost every province has
26 a statutory requirement of one year's residence in the
27 province before registration can be granted. A broker-
28 dealer, in order to comply would have to open a branch
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1 It is impossible for a small broker-dealer, as most are,
2 to sustain a chain of branches from coast to coast even
3 if he could find capable management assistance in areas
4 with which he is probably unfamiliar.

5 44. If this is not an effective bar, then
6 individual provincial policy certainly is. British
7 Columbia, as a matter of policy, will not grant
8 registration as a broker-dealer whether the applicant
9 complies with the statute and all other policy or not.
10 Alberta requires a net free capital position of \$25,000.
11 to be held within the province but regardless of
12 compliance in all other respects will not grant
13 registration to any one who intends making telephone
14 solicitations. Saskatchewan does not have any
15 particular bars known to the Association other than
16 its residence requirements.

17 45. Manitoba requires any applicant for registra-
18 tion as a broker-dealer to be a member or associate
19 member of the Winnipeg Stock Exchange. There appear
20 to be no exceptions to this statutory requirement.

21 46. Quebec requires free net capital of over
22 \$25,000. which is beyond the financial capabilities of
23 a large proportion of broker-dealers and further a
24 branch office in the province must be maintained.
25 The Securities Acts of New Brunswick, Nova Scotia,
26 Prince Edward Island and Newfoundland are similar and
27 while providing for registration of non-residents,
28 also require "address for service" in the province
29 and each speaks of "address of the senior official
30 of the company in the province". This latter



It is impossible for a small broker-dealer, as most are, to sustain a chain of branches from coast to coast even if he could find capable management assistance in areas with which he is probably unfamiliar.

If this is not an effective bar, then individual provincial policy certainly is. British Columbia, as a matter of policy, will not grant registration as a broker-dealer whether the applicant complies with the statute and all other policy or not. Alberta requires a net free capital position of \$25,000 to be held within the province but regardless of compliance in all other respects will not grant registration to any one who intends making telephone solicitations. Saskatchewan does not have any particular bars known to the Association other than its residence requirements.

Manitoba requires any applicant for registration as a broker-dealer to be a member or associate member of the Winnipeg Stock Exchange. There appear to be no exceptions to this statutory requirement. Quebec requires free net capital of over \$25,000, which is beyond the financial capabilities of a large proportion of broker-dealers and further a branch office in the province must be maintained. The Securities Acts of New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland are similar and while providing for registration of non-residents, also require "address for service" in the province and each speaks of "address of the senior official of the company in the province". This latter

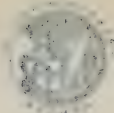


1 requirement would seem to indicate that a branch of
2 some kind is required but their individual policy in
3 this regard is unknown to the Association.

4 47. In addition to the above requirements each
5 province with the exception of Ontario requires a
6 surety bond in amounts which vary from \$10,000. in
7 British Columbia to \$500. in Newfoundland. As a result
8 no members of the Association who are not members of
9 the Toronto Stock Exchange, or the Montreal Stock
10 Exchange and the Canadian Stock Exchange have
11 registered in other provinces.

12 48. The American situation is somewhat different.
13 If the rest of Canada is important in raising
14 speculative funds then the United States market is
15 tenfold more so. From the beginning of the Association
16 the major part of the funds raised for mining and
17 oil development have come from the United States,
18 and similarly from the beginning has been the related
19 problem of the contravention of American law. The
20 term American law encompasses the enormous complexity
21 resulting from forty-nine dissimilar state statutes
22 and two federal statutes.

23 49. In May, 1949 the Board of Governors began
24 negotiations with the Securities & Exchange Commission
25 to enable Ontario broker-dealers to compete in the
26 United States on a fair and equitable basis. Between
27 that date and March, 1953 many discussions between the
28 Board of the Association, the Chairman of the Ontario
29 Securities Commission, officials of the Securities &
30 Exchange Commission, other Canadian administrators and



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officials of the federal government of Canada, culminated in the promulgation of Regulation D, an amendment to the Securities Act, 1933. This Regulation granted exemptions from the "long form" filing required by the Act for Ontario issues where the funds sought did not in the aggregate exceed \$300,000. per year. In return for the Securities & Exchange Commission enacting the Regulation, the Chairman of the Ontario Securities Commission issued a directive applicable to all Ontario registrants forbidding the offer or solicitation of shares in the United States without registration. The experiment was unsuccessful. Delays in registration forced many broker-dealers out of business and many others went to other jurisdictions to avoid the Ontario requirements. After eighteen months Mr. Lennox, the Chairman of the Commission, issued a statement rescinding his previous directive.

50. Members of the Association thereafter resumed trading in the United States. Since the issues they sold were not registered according to Securities & Exchange Commission requirements they were, without exception placed in the Canadian Restricted List which prohibited U. S. brokers from effecting trades. As a result of action by the United States Postal Authorities, prompted by the Securities & Exchange Commission in Washington, the return of mail to many Ontario broker-dealers was stopped. This effectively hindered the raising of speculative capital in the United States on a reasonable basis.



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51. In spite of the above handicap many broker-dealers continued their efforts to solicit some business in the United States. The opposition of the United States authorities to these efforts resulted in pressures which forced the Board of Governors of the Broker-Dealers' Association of Ontario to order its members to cease offering or soliciting the purchase of shares in jurisdictions unless the appropriate laws were complied with.

52. The above action which took place in March, 1961, enabled the Broker-Dealers' Association to reach an arrangement with the Securities & Exchange Commission. This resulted in the revocation of all Postal Fraud Orders against members of the Association and the registration in Washington of the broker-dealers who made application. Although dealers have been registered with little delay, the registration of issues has been prolonged and costly.

LEGISLATION AND CONTROL

53. There are in force at the present time in Canada a great many provincial statutes which bear to a greater or lesser extent upon the sale of securities, administered by a variety of officials. In Ontario alone, together with The Criminal Code and The Dominion Companies Act there are nine such statutes administered by almost as many individuals and groups. In such circumstances the impact of legislation on the securities industry can only be described as pervasive.

54. In Ontario, as in all provinces, the legislation most directly affecting broker-dealers is



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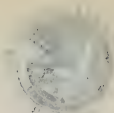
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1 the Ontario Securities Act. It, like securities
2 legislation anywhere is concerned with the problem of
3 protecting the gullible buyer from the deceitful
4 seller. The securities industry, like any other,
5 attracts some individuals, it would as leave do with-
6 out, but again like any other the large majority is
7 responsible. The problem of protecting the public
8 from the few without imposing unduly harsh restrictions
9 on the many has been solved by requiring full disclosure
10 of all material facts in connection with an issue of
11 securities. All Canadian statutes follow this pattern
12 by combining a regulatory function with disclosure
13 provisions of some kind.

14 55. The first Canadian statute was enacted by
15 Manitoba patterned after the original United States
16 "State blue sky-law" in 1914. Other provinces
17 followed suit but unlike the United States experience,
18 since they purported to prevent the sale of shares,
19 these statutes were subject to successful constitutional
20 attack. Re-phrasing of the legislation to require
21 registration of brokers in the early 1930's withstood
22 subsequent appeals to the Privy Council. Again
23 Manitoba was the leader and its Act was followed by
24 most other provinces. Ontario changed, in 1945,
25 to a statute setting out very detailed prospectus
26 requirements. While amended to some degree in 1947
27 it has remained substantially the same ever since.
28 With one or two significant additions (e.g. bonding
29 requirements and provisions for forfeiture) this
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1 Alberta and Saskatchewan. The pattern of the Manitoba
2 Act has been followed by New Brunswick, Nova Scotia,
3 Newfoundland and Prince Edward Island. All of these
4 statutes, while having a common "root", contain
5 provisions which set them apart each from the other.
6 Quebec, while in some ways similar to the Ontario
7 model, in practice stands alone.

8 56. Each of the provincial Acts are primarily
9 regulatory in character and each empower the Admin-
10 istrator to exercise an extremely wide discretion.
11 Each Commission's Chairman has his own philosophy of
12 securities administration and this broad authority
13 allows him to put it into practice. The result is
14 that while legislation may be similar or even
15 identical from one jurisdiction to another, the policy
16 may be radically different. Those familiar with
17 securities work are aware that substantive security
18 law is comparable to the visible part of an iceberg,
19 while the procedural law and policy represent the
20 submerged mass. So long as such discretions exist
21 the experience of the Association would indicate that
22 true uniformity can never be realized.

23 57. There is a further question as to whether
24 such uniformity is desirable. Those who have opposed
25 the concept of federal securities administration, have
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1 58. The argument in favour of uniformity by
2 way of a multiplicity of identical statutes as
3 opposed to uniformity by means of one federal statute
4 is ill founded. If developed to its logical con-
5 clusion and complete uniformity of legislation and
6 policy was realized, then one statute and commission
7 should replace ten, in the interest of efficiency and
8 economy. The Association believes that in the national
9 interest, a regionally administered federal commission
10 should replace the provincial system.

11 59. The only source of capital available for
12 exploration and development ventures during the past
13 year and a quarter has been within the province of
14 Ontario. In addition, approximately twenty-five (25%)
15 of the broker-dealers engaged in the raising of
16 promotional capital have been forced to close. Aside
17 from the limited number of people interested in
18 speculative securities in Ontario some provisions of
19 the Ontario Securities Act make it additionally
20 difficult to reach the local market.

21 60. The part of the Act which add to the
22 difficulty of raising speculative capital are few
23 in number but wide in their effect. The Act in its
24 present form prevents a dealer calling anyone at his
25 home unless that person is a close personal friend,
26 a business associate or a customer with whom the
27 dealer has been in the habit of trading in securities.
28 Aside from the above, a dealer may only call a
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1 61. In the order in which they appear, the
2 first provision which creates a difficulty is the one
3 relating to a customer with whom the dealer has been
4 in the habit of trading in securities. Many people
5 might make one, or at the most, two purchases of
6 speculative securities during a year and although they
7 could not be considered habitual traders, to the
8 extent they do trade, one transaction is the extent
9 to which they are in the habit of trading. To require
10 a dealer who has already had one transaction with a
11 person to obtain a request in writing before he may
12 call him later to solicit the purchase of another
13 security is a hardship.

14 62. The next provisions which makes the raising
15 of speculative capital difficult is the one relating
16 to requests for information in writing. Even though
17 a dealer has received a written request for information
18 on a security from a person, and subsequently effected
19 a sale, unless he comes within one of the exemptions
20 noted above, he must get another request in writing
21 before he may call him on the second issue. The need
22 for this second request is not appreciated by the
23 prospective buyer and the effort to obtain it usually
24 antagonizes him.

25 63. With a view to eliminate the above handi-
26 caps in raising speculative capital, certain amend-
27 ments to Section 53 of the Ontario Securities Act
28 are urged by the Association. The specific proposals
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29 are set forth in the following Part.



1 Section 8 of the Ontario Act R.S.O 1960, chapter 363,
2 reads as follows:

3 Section 8 - "The Commission shall suspend
4 or cancel any registration
5 where in its opinion such
6 action is in the public
7 interest."

8 This is the only Section providing for
9 cancellation or suspension of an existing registration
10 contained in the statute.

11 65. In practice, the Legal and Investigation
12 Section of the Ontario Securities Commission invest-
13 igates a given situation and reports thereon to the
14 Chairman. By virtue of his power under Section 3
15 the Chairman may then make an order suspending or
16 cancelling the registrant. It is quite possible and
17 in some cases probable that up to this point a
18 registrant has no prior knowledge that an investigation
19 with possible serious consequences has taken place.
20 An order of the nature referred to is effective forth-
21 with and it is then open to the registrant to request
22 a hearing and review before the full Commission
23 pursuant to Section 29 (1).

24 66. Not until such a hearing takes place does
25 the registrant have an opportunity to refute the
26 allegations which precipitated the Chairman's
27 original order and not until the Chairman's reasons
28 accompanying his decision are made known is he aware
29 of the nature of the allegations. The original
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1 complaint received by the Commission but such a
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3 igation being undertaken.

4 67. The harm done to the registrant by a
5 cancellation or suspension of his registration is
6 obvious but what is often not considered is the harm
7 done to shareholders of the company whose shares the
8 registrant has been distributing. Invariably in these
9 circumstances the company is forced to discontinue
10 its exploration programme due to lack of funds and
11 rarely survives under a change in financial sponsor-
12 ship.

13 68. This practice as set out above has developed
14 as a result of an interpretation which holds that the
15 Chairman's order in the first instance is a purely
16 administrative decision, and not a judicial or quasi-
17 judicial one. Accordingly it is not considered that
18 ordinary and accepted rules of reasonable notice and
19 opportunity for a hearing as enunciated in a long line
20 of English and Canadian authorities, apply to such
21 decisions.

22 69. It is submitted that any decision which
23 purports to deprive a person of the privilege of
24 participating in a type of business is, or should be,
25 quasi-judicial in nature. If it is possible to
26 interpret Section 8 taken in the overall context of
27 the Act otherwise, it is further submitted that
28 Section 8 should be repealed and re-enacted to provide
29 for the universally recognized safeguards of individual
30 rights.



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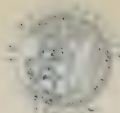
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70. The new section might well follow Section 23 of the Act and provide that where as a result of an investigation pursuant to Section 21 or 23 it appears that a violation of the Act may have occurred, notice is given that the legal and investigation branch intends to apply to the Chairman for an order cancelling or suspending the registration. Notice to the registrant setting out the grounds upon which such order is sought and setting a date for a hearing, should also be provided for.

71. Admittedly this may entail considerable alteration in several sections of the Act but it would be balanced by the adoption and benefits of a universally accepted type of procedure, which would create greater respect for the Commission among members of the industry. Any changes which bring the Act into line with accepted principles of justice must operate to the ultimate benefit of all.

72. The Chairman of the Ontario Securities Commission has been quoted as saying that in general, broker-dealers sell from lists and do not have an established clientele. While this has been largely the case in the past, it is becoming increasingly apparent that in order to survive a broker-dealer must build up some sort of client business. The very nature and function of his business precludes a clientele with the same loyalty as that of a bond dealer but a clientele of sorts it must be. If one accepts this premise then it is obvious that a suspension of any kind would probably ruin him, and



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1 these suggestions would provide some protection in
2 the event that Commission action is based in the first
3 instance on grounds which subsequently cannot be
4 substantiated.

5 73. While these comments apply to the Ontario
6 Act they may, due to the similarity between statutes,
7 have wide application to other jurisdictions. The
8 Association is particularly hopeful that all provinces
9 will see fit to adopt legislation to give relief to
10 the problems discussed here and in earlier sections
11 of this brief.

12 74. The prospectus requirements of the Commission
13 are exhaustive and as has been noted have been widely
14 adopted by other jurisdictions. The basic requirement
15 is "full, true and plain" disclosure of all material
16 facts in connection with a given issue of securities.
17 While "full" and "true", they may not in all instances
18 be "plain". It is not surprising that purchasers
19 experience difficulty with a prospectus, containing
20 as it does a great deal of legal and technical material.
21 A narrative method of presentation can result in a
22 clearer understanding of the facts required by the
23 statute. This does not mean, however, that the
24 Association approves in any way of the Securities &
25 Exchange Commission practice and attitudes toward the
26 contents and form of the narrative prospectus.

27 75. The escrow regulations presently in force
28 in Ontario were established as a result of discussions
29 between the Association and the Commission some years
30 ago. (Appendix A). They are considered a fair



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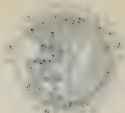
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1 balance, protecting on the one hand the purchaser of
2 the security and yet providing an incentive to those
3 financing the company. The system of withholding
4 release until certain minimum funds have been raised
5 encourages financing and is superior to a system
6 allowing for release solely on the basis of lapse
7 of time.

8 76. During the course of primary distribution,
9 any material change in the company's affairs must be
10 the subject of an amendment to the prospectus, and
11 where the distribution is still in effect at the
12 end of a year, a new prospectus is required showing
13 all progress to date. These provisions assure share-
14 holders that funds are used for the purpose for which
15 they are raised and also keep them informed of
16 developments. A problem arises, however, when primary
17 distribution ceases. After that time amendments need
18 not be filed to record material changes and no authority
19 has any jurisdiction over the company's directors.
20 It is true that annual returns are required by various
21 provincial and federal companies legislation but
22 such returns do not contain pertinent financial
23 information nor is a failure to file them followed
24 by any substantial penalty. The Association
25 strongly recommends that legislation be adopted to
26 make it obligatory for any company that has obtained
27 funds from the public, to file an annual or semi-
28 annual return showing its financial position and
29 account for expenditures. Such a return might also
30 require particulars of any material change in the



balance, protecting on the one hand the purchaser of the security and yet providing an incentive to those financing the company. The system of withholding release until certain minimum funds have been raised encourages financing and is superior to a system allowing for release solely on the basis of lapse of time.

During the course of primary distribution any material change in the company's affairs must be the subject of an amendment to the prospectus, and where the distribution is still in effect at the end of a year, a new prospectus is required showing all progress to date. These provisions assure shareholders that funds are used for the purpose for which they are raised and also keep them informed of developments. A problem arises, however, when primary distribution ceases. After that time amendments need not be filed to record material changes and no authority has any limitation over the company's directors.

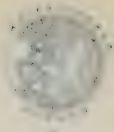
It is true that annual returns are required by various provincial and federal companies legislation but such returns do not contain pertinent financial information nor is a failure to file them followed by any substantial penalty. The Association strongly recommends that legislation be adopted to make it obligatory for any company that has obtained funds from the public, to file an annual or semi-annual return showing its financial position and account for expenditures. Such a return might also require particulars of any material change in the



company's affairs. The enforcement of such requirements should rest with the agency under whose authority the funds were originally raised.

77. Quite naturally, the Association approves of the principle of self-government and believes that benefits of this principle have been amply demonstrated in the brief period since the enabling statute was passed. The most important feature of this system is that individuals experienced in the operation of the business and cognizant of the problems faced come forward to serve without pecuniary advantage or reward. Their understanding and knowledge is the key to efficient solution of problems the nature of which is obscure to those unfamiliar with the industry. The successful administration of the securities industry in Ontario is largely attributable to the close degree of cooperation between government and business; a cooperation which would be virtually impossible without business organization of some kind.

78. The Association may enact, repeal or vary any regulation only with the consent of the Commission. Rules and requirements of the Board of Governors are another matter however, but even in this case the Commission is kept fully informed as a matter of policy. The administrative staff of the Association, as well as the Board, work very closely with the Commission officials in all phases of Association business including registration of brokers and salesmen, price spreads, releases from escrow, audit matters and investigations.



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as well as the Board, work very closely with the

Commission officials in all cases of Association

business and the Commission will be kept fully

informed of all matters of importance to the

Association.



79. Insofar as internal operation of the Association is concerned, investigative power is restricted to audit matters. Sanctions, in the form of expulsion, suspension, reprimand or fine, may be imposed for "unethical conduct", a term which embraces an exceedingly wide range. These sanctions are imposed by the Board and notice of any disciplinary action taken is communicated to the Commission.

80. Before the Board will approve a new applicant for membership the auditors retained by the Association must indicate that the minimum capital requirements of the Association have been complied with. This involves the deposit under an indenture of trust of the sum of \$5,000. to be paid out only as the Board may direct. A further \$5,000. must be retained as free net capital at all times and the Board, in interviewing the applicant, satisfies itself that further funds are present and available for capital outlay. While these amounts are not large in comparison to the assets of an exchange member or most investment dealers, such large capital requirements are not deemed appropriate. In this business, beset by many hazards, the willingness of a principal to risk his resources and time consistent with a satisfactory knowledge and business reputation is of greater importance than substantial capital resources. A majority of the membership is, as a result, composed of small businesses.

81. Salesmen employed by broker-dealers must be



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104. Association is concerned, investigative power is

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1 acceptable as associate members. Training of salesmen
2 is left to the judgment of the individual broker-
3 dealer but before an application is considered by the
4 Board, the applicant must submit to written test and
5 an interview with the Salesmen's Committee.

6 82. Mention has already been made of the mechanics
7 of price spreading. How big are the price spreads?
8 This depends to some extent on what the broker-dealer
9 decides to take but, of course, cannot exceed the
10 ceiling fixed by the Board. The Board's schedule of
11 spreads is twice the option price up to 25¢ optioned
12 stock and then it cuts down sharply on a sliding
13 scale until on \$1 optioned stock the spread becomes
14 equal to the take-down price. However, from
15 observations, the over-all average price spreads for
16 mining and oil issues are closer to $1\frac{1}{4}$ or $1\frac{1}{2}$ times
17 the option prices.

18 83. There are many who feel that the existing
19 price spreads fixed by the Board are too large but
20 it should be remembered that a broker dealer's
21 selling costs in financing a "grass-roots" mining
22 or oil venture, particularly one in a new and
23 unknown location, are very high indeed and it is
24 usually the small broker-dealer who co-operates
25 with the prospector to do this kind of work.
26 Selling costs are high because speculators don't
27 like to risk their funds in ventures which may wind
28 up in a total loss if nothing is found. But the
29 Board must fix a schedule of price spreads to make
30 allowances for these cases so that it will be



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1 financially possible for broker-dealers to assist in
2 the exploration and development of raw prospect
3 mining properties.

4 84. The Association has authority and control
5 over a small portion of the people who trade in the
6 unlisted market. Such control is exercised by virtue
7 of regulations made by the Board.

8 85. Previous mention has been made of the
9 comparative speed with which a material change in
10 the affairs of a company can be approved by an
11 organization which has the benefit of specialized
12 knowledge and experience. The example cited was
13 the filing committee of a stock exchange. It is
14 suggested that comparable authority delegated to the
15 Board of the Association would provide similar
16 benefits in the case of unlisted companies. This
17 is not to suggest that present legislative requirements
18 respecting prospectuses and the annual re-filing
19 thereof should be altered.

20 STATISTICAL INFORMATION

21 86. Satisfactory statistical information has
22 been very difficult to obtain and in many cases is
23 not available at all. Below are set out according
24 to years, the total amounts paid into company
25 treasuries through the efforts of broker-dealers.
26 It should be pointed out that these amounts do not
27 include the distribution of listed securities by
28 members of the Association whether members of an
29 exchange or not. In many cases, members provided
30 preliminary financing of companies which subsequently



the exploration and development of raw materials

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over a small portion of the goods which are in the
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financially backing of companies which subsequently



became listed. Although the broker-dealer might have continued distribution, the amounts raised after listing are not included. It can be assumed that were such information available the totals would be appreciably higher.

1951 \$13,331,428.

1952 12,452,686.

1953 9,891,210.

1954 14,074,320.

1955 17,143,750.

1956 25,162,000.

1957 9,110,000.

1958 15,452,000.

1959 19,577,700.

1960 15,180,000.

1961 9,565,600.

Total - \$160,940,000.

87. Since there is no way of knowing at what prices shares were sold, no estimate can be made as to total public investment nor to broker-dealer profit. The Association has no control over the issuing company and no access to their financial statements. Without this information, no statistics are available as to the proportion of administrative to exploration expenditure.



Nothing are not included. It can be assumed that
 were such information available the totals would be

1952	10,400,000.
1953	10,400,000.
1954	10,400,000.
1955	10,400,000.
1956	10,400,000.
1957	10,400,000.
1958	10,400,000.
1959	10,400,000.
1960	10,400,000.
1961	10,400,000.
1962	10,400,000.
1963	10,400,000.
1964	10,400,000.
1965	10,400,000.
1966	10,400,000.
1967	10,400,000.
1968	10,400,000.
1969	10,400,000.
1970	10,400,000.
Total	\$100,000,000.

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 are available as to the proportion of administrative



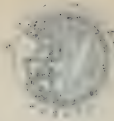
CONCLUSION

88. The tendency of most people, including those responsible for securities administration, is to view dealers who sell speculative securities with a noticeably critical eye. The criticism is to be expected when one considers that few of the ventures sponsored, succeed sufficiently to reward the speculator or even recoup his investment.

89. The broker-dealer's compensation is also unfavourably compared with that received by dealers in more established securities. In this connection it must be borne in mind that firms selling established securities are rarely faced with the problems inherent in the marketing of speculative securities. The dealer who endeavours to raise capital for new mining and oil ventures however can initially offer nothing more than hopes.

90. The relative difficulties between the two types of business are obvious. The line between enthusiastic selling and misrepresentation is a difficult one to draw or identify. Without the former no mining or oil ventures would be financed. The penalty for the latter is severe.

91. Critics, always cognizant of the unfavourable aspects mentioned above, overlook and discredit the constructive accomplishments of dealers in speculative securities. The fact that Ontario broker-dealers alone, in a period of eleven years, raised approximately \$161,000,000.00 for unlisted junior mining and oil companies entitles this section of the industry to support and encouragement.



1911

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APPENDIX "A"

POLICY OF THE ONTARIO SECURITIES COMMISSION IN RESPECT
TO MINING AND OIL UNDERWRITINGS AND OPTIONS.

- (1) With respect to new issues, no shares shall be purchased, underwritten or optioned at less than 10¢ per share but, where an issue is not new, the Commission may exercise its discretion.
- (2) An option shall not be permitted without an underwriting for a minimum of \$5,000.
- (3) Any underwriting shall be for at least 50% payable forthwith and the balance within 60 days from the date of acceptance of the prospectus for filing by the Commission. Subject to adjustment in special circumstances.
- (4) Not more than 200,000 shares shall be optioned at any one price, provided that the Commission may exercise its discretion where it considers that exceptional circumstances exist.
- (5) The time for exercising the first option shall be not later than six months from the date for completion of the underwriting and further options shall be completed at least quarter yearly.



(1) With respect to new issues, no shares shall be purchased, underwritten or optioned at less than 10¢ per share but, where an issue is now new, the Commission may exercise its

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(5) The time for exercising the first option shall be not later than six months from the date of completion of the underwriting and the same options shall be completed at least



(6) There shall be at least a $2\frac{1}{2}\phi$ spread between each price range from 10ϕ to 20ϕ ; at least a 5ϕ spread between each price range from 20ϕ to 50ϕ ; at least a 10ϕ spread between each price range from 50ϕ to 80ϕ ; and at least a 25ϕ spread between each price range thereafter.

(7) The spread on shares sold by an underwriter/optionee to a sub-underwriter/optionee shall not be in excess of 1ϕ per share.

(8) The Commission will exercise extreme caution in accepting a prospectus for filing when more than 1,000,000 shares are underwritten and/or optioned.

Vendor Interest

(1) The vendor interest will be based on a sliding scale not to exceed 25% of a 3,000,000 share company, 20% of a 4,000,000 share company and 18% of a 5,000,000 share company. These percentages are yardsticks and special situations may call for variation either upward or downward.

(2) None of the vendor's share interest in a new oil and/or natural gas company shall be free from escrow when the prospectus of the company is accepted for filing by the Commission and, with respect to other types of new companies, not more than 10% of the vendor's share interest shall be free from escrow.



(6) The spread shall be at least a 2 1/4% spread between each price range from 100 to 200; at least a 5% spread between each price range from 200 to 500; at least a 10% spread between each price range from 500 to 1,000; and at least a 15% spread between

(7) The spread on shares sold by an underwriter shall not be in excess of 10% per share.

(8) The Commission will exercise extreme caution in accepting a prospectus for filing when more than 1,000,000 shares are underwritten and/or offered.

(9) The vendor interest will be based on a sliding scale not to exceed 2% of a 1,000,000 share company, 10% of a 2,000,000 share company and 15% of a 5,000,000 share company. and special situations may call for variation either upward or downward.

(10) None of the vendor's share interest in a new oil and/or natural gas company shall be free from review when the prospectus of the company is accepted for filing by the Commission and, with respect to other types of new companies, not more than 10% of the vendor's



Release of Vendor's Shares from Escrow

(1) Oil and/or Natural Gas Companies

- (a) Twenty per cent of the vendor's shares shall be released from escrow when an oil and/or natural gas company is fully financed to drill one well (exclusive of the shallow Lloydminster type) and a drilling contract has been entered into therefor.
- (b) An additional 20% of the vendor's shares shall be released from escrow when the first well (exclusive of the shallow Lloydminster type) is completed.
- (c) An additional 30% of the vendor's shares shall be released from escrow when the second well (exclusive of the shallow Lloydminster type) is completed.
- (d) The remaining 30% of the vendor's shares shall be released from escrow when the third well (exclusive of the shallow Lloydminster type) is completed.
- (e) The Commission will exercise its discretion in the release from escrow of vendor's shares of oil and/or natural gas companies engaged in the drilling of the shallow Lloydminster type wells.

(2) Other Companies

- (a) One vendor's share of companies other than oil and/or gas companies, except as



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Lloydminster type) is completed.

(c) An additional 30% of the vendor's shares

shall be released from escrow when the

second well (exclusive of the shallow

Lloydminster type) is completed.

(d) The remaining 30% of the vendor's shares

shall be released from escrow when the

third well (exclusive of the shallow

Lloydminster type) is completed.

(e) The Commission will exercise its

discretion in the release from escrow of

vendor's shares of oil and/or natural

gas companies engaged in the drilling

of the shallow Lloydminster type wells.

(2) Other Companies

(a) One vendor's share of companies other

than oil and/or gas companies, except as



provided in clause (b) below, may be
released from escrow for

(i) every 4 shares purchased from the
treasury of a 3,000,000 share
company;

(ii) every 5 shares purchased from the
treasury of a 4,000,000 share
company;

(iii) every $5\frac{1}{2}$ shares purchased from the
treasury of a 5,000,000 share
company,

and the release from escrow of the vendor's
share of companies with other capital-
izations shall be in a similar proportion.

(b) The Commission will exercise its
discretion in the release from escrow
of vendor's shares of companies which are
engaged in both oil and metal mining
ventures or other exceptional cases.

(3) Before consenting to the release from escrow
of vendor's shares, the opinion of the
appropriate Stock Exchange will be sought by
the Commission when dealing with listed issues
and the opinion of The Broker-Dealers'
Association of Ontario will be sought when
dealing with unlisted issues which are being
sold to the public by any of its members.
The Commission will continue the practice of



provided in clause (d) below, may be

released from escrow for

(i) every 1 share purchased from

treasury of a 3,000,000 share

company;

(ii) every 5 shares purchased from the

treasury of a 4,000,000 share

(iii) every 25 shares purchased from the

treasury of a 5,000,000 share

company,

and the release from escrow of the vendor's

share of companies with other capital

transactions shall be in a similar proportion.

(b) The Commission will exercise its

discretion in the release from escrow

of vendor's shares of companies which are

engaged in both oil and metal mining

ventures in which the Commission

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The Commission will continue the practice of



Nethercut & Young

Toronto, Ontario

A. 55

1 studying the current balance sheet in order
2 to ascertain what progress has been made in
3 financing an operation and, in addition,
4 consideration will be given to other progress
5 made.



Page 10

attached the current balance sheet in order
to ascertain what progress has been made in
conducting an operation and, in addition,
information will be given to other progress

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Royal Commission on Banking and Finance

DEPARTMENT OF FINANCE

Hearings
held at
OTTAWA

Vol.

58

Date.

7 JAN 1963
8 JAN 1963



Official Reporters
F.J. Aethercut and R.J. Young
Toronto, Ont.



Nethercut & Young

Toronto, Ontario

- 7256 -

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Ottawa,
Ontario, on Monday,
January 7, 1963.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W. A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H. A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary



ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Ottawa,
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January 7, 1930

WITNESSES

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Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. James Douglas Gibson, O.B.E.
Toronto, Ontario

Mr. James H. Gibson
Toronto, Ontario

Mr. Paul H. Leman
Montreal, Quebec

Mr. James H. Gibson
Corporation Executive

Dr. W. A. Mackintosh
Vice-Chancellor
University of Toronto

- Secretary

Mr. H. A. Hampson

- Joint Secretary

Mr. Gilles Macneil



Nethercut & Young

Toronto, Ontario

- 7257 -

Ottawa, Ontario,
Monday,
January 7, 1963.

--- At 9.15 A.M. the hearing resumed.

THE CHAIRMAN: We will call the meeting to order. This morning we have a submission from the Department of Finance. Mr. Taylor, Deputy Minister of Finance, will make an opening statement, I understand. Perhaps you would first introduce the members of the department.

SUBMISSION OF
THE DEPARTMENT OF FINANCE

APPEARANCES

K. W. Taylor	- Deputy Minister, Department of Finance
A.F.W. Plumptre	- Assistant Deputy Minister, Department of Finance
H. R. Balls	- Comptroller of Treasury, Department of Finance
G.G.E. Steele	- Assistant Deputy Minister and Secretary of the Treasury Board.
A. B. Hockin	- Director of Financial Affairs and Economic Analysis Division, Department of Finance.



Ottawa, Ontario,
Monday,
January 7, 1953.

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SUBMISSION OF

THE DEPARTMENT OF FINANCE

Participants

- | | |
|--|------------------|
| - Deputy Minister,
Department of Finance | K. W. Taylor |
| - Assistant Deputy
Minister, Department
of Finance | A. F. W. Fanning |
| - Comptroller of
Finance | H. R. Bellis |
| - Assistant Deputy
Minister and
Secretary of the
Treasury Board | G. G. E. Steele |
| - Director of Financial
Affairs and Economic
Analysis Division,
Department of Finance | A. B. Hooklin |



1 MR. TAYLOR: Yes, I would be glad to do
2 that, Mr. Chairman. I would like to start off; Mr.
3 Chairman and Commissioners, by saying that in
4 appearing before the Royal Commission on Banking
5 and Finance I think we should emphasize it is necessary
6 for us as government officials to limit our state-
7 ments and evidence to factual and descriptive and
8 explanatory information. It cannot be our duty
9 or function to appraise government actions and
10 policies, or to express views as to their merits,
11 or even to say what we should do or are going to do;
12 nor can we make any recommendations.

13 In response to communications supplied
14 to us some months ago by the Commission staff, we
15 have submitted to you, sir, a group of factual
16 and descriptive papers. I could just read the
17 titles of them:

18 The first is on budgetary revenues
19 and expenditures from 1926-1927 to 1961-1962.

20 The second is procedures in preparing
21 the annual budget.

22 The third is on cash management in
23 the federal government.

24 The fourth is loans by the chartered
25 banks guaranteed by the government of Canada.

26 The fifth is the relations of the
27 Department of Finance with other departments and
28 agencies having special financial responsibilities.

29 The sixth is the relations of the
30 Department of Finance with Crown agencies.



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and expenditures from 1955-1957 to 1961-1962.
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and descriptive papers. I could just read the
have submitted to you, sir, a group of factual
to us some months ago by the Commission staff, we
In response to communications supplied
not can we make any recommendations.
or even to say what we should do or are going to do;
policies, or to express views as to their merits,
or function to appraise government actions and
explanatory information. It cannot be our duty
ments and evidence to factual and descriptive and
for us as government officials to limit our state-
and Finance I think we should emphasize it is necessary
appearing before the Royal Commission on Banking
Government and Commissioners, by saying that in
fact, Mr. Chairman. I would like to start off, Mr.

Yes, I would be glad to do



1 The seventh is a section on the Emergency
2 Gold Mining Assistance Act.

3 Number eight is relations of the Department
4 of Finance with the provincial and municipal govern-
5 ments.

6 The ninth is the international financial
7 relations of the Department of Finance.

8 We have in addition supplied a con-
9 siderable amount of statistical material as
10 requested by your research staff, and we shall be
11 glad to do our best to supply as quickly as possible
12 any further information or material that the Commission
13 or staff may require.

14 I have asked to attend this session
15 with me four of my colleagues, each of whom is
16 an expert or, at least, a thoroughly well-informed
17 person in certain special areas, and as your
18 questions develop, I shall from time to time ask
19 them to provide answers or to supplement my answers.

20 On my right is Mr. Plumptre, Assistant
21 Deputy Minister, to whom the various groups and
22 sections of our department dealing with financial
23 affairs, economic analysis, and external aid, report.
24 He is also an executive director of the International
25 Monetary Fund and International Bank for Reconstruction
26 and Development. He is, as you probably know, a
27 former professor at the University of Toronto and
28 author of a number of well known books and papers
29 on central banking in the major countries of the
30 world. Thirty years ago he was the assistant sec-



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1 retary of the Royal Commission on Banking* and Currency.

2 On my left is Mr. Balls, the Comptroller
3 of the Treasury. Included in his very wide areas
4 of responsibility is our daily cash management and
5 general cash administration. He was for many years
6 on the staff of the Auditor General. Later he
7 became the director of financial administration and
8 accounting policy in the Department of Finance. Since
9 1958 he has been the comptroller of the Treasury. I
10 could add, perhaps, he is also a recent past president
11 of the Institute of Public Administration of Canada.

12 On Mr. Balls' left is Mr. Steele,
13 Assistant Deputy Minister of Finance and the Secretary
14 of the Treasury Board, one of the most important staff
15 groups in the public service. He served overseas in
16 the R.C.A.F. in the last war and then attended the
17 London School of Economics. He joined the Treasury
18 Board Staff as a relatively junior officer in 1951,
19 and in 1961 he became the Assistant Deputy Minister
20 and Secretary of the Treasury Board.

21 On Mr. Plumptre's right is Mr. Hockin who
22 is director of our Division of Financial Affairs
23 and Economic Analysis, and in Mr. Plumptre's absence
24 he acts as second in command of that group of our depart-
25 ment. He served as a member on the financial and
26 economic side of our N.A.T.O. mission in Paris for one
27 and a half years, and later was the financial counsellor
28 at our Washington Embassy and our alternate executive
29 director of the International Monetary Fund, and
30 International Bank for Reconstruction and Development.



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1 Perhaps I could end up by saying that
2 last night we were informed of the general items and
3 topics on which you and your colleagues are likely
4 to be questioning us. Some of these may be rather
5 complicated or complex questions. We will do our
6 best to answer them, but we may have to indicate
7 from time to time that we will have to polish up our
8 answers a little later.

9 Thank you, sir.

10 THE CHAIRMAN: We will now proceed with the
11 discussion.

12 COMMISSIONER GIBSON: Mr. Chairman, like
13 the other commissioners, I have read the papers that
14 the Deputy Minister has presented with much interest.
15 I would like as a start to ask you some more questions
16 on the subject of debt management and the function of
17 the department in debt management and how this
18 function actually works out. We have heard a lot in
19 our hearings thus far about the importance of debt
20 management in relation to monetary policy, and this
21 is particularly so from a number of foreign witnesses
22 that have appeared before us, and this is one of the
23 reasons we would very much like to have your views
24 on some of these matters.

25 I wonder if you could start by telling
26 us what, in terms of the thinking of the Department
27 of Finance, is included under the heading of debt
28 management. To elaborate a little, obviously new
29 issues of securities. Do you think in terms of an
30 appropriate yield curve, or is that something outside



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issues of securities. Do you think in terms of an

appropriate yield curve, or is that something outside



1 the bounds of your thinking on debt management? Could
2 you give us a little definition?

3 MR. TAYLOR: Mr. Gibson, debt management
4 could be a little hard to define. It can be a very
5 broad subject, or it could be defined in much more
6 precise terms. In a sense, debt management is
7 an overlapping part of general financial
8 and even economic policy. In a particular sense,
9 when one thinks in terms of particular actions in the
10 area of debt management, it is related to our current
11 and future cash requirements and cash management. It
12 ties in with and is closely related to certain aspects
13 of monetary policy. It has certain aspects in
14 relationship to international balance of payment.
15 In other words, it interlocks with almost all aspects
16 of financial and economic policy.

17 In the narrower sense it refers, of
18 course, to the nature of new bond issues; the overall
19 pattern of our debt to the appropriate relationship
20 between short term, medium term and longer term bond
21 issues. There is the technical nature of security
22 issues: should they be what you might call orthodox
23 bonds or standard bonds? We have had certain issues
24 with optional redemption dates or optional extension
25 dates, and so on. The field of debt management also
26 includes the operations of the purchase fund and the
27 securities / investment account, sinking funds, and so on. We
28 do not have a division or department that is labelled
29 the division of debt management. That is very largely
30 my personal responsibility. Mr. Hockin is, to a very



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do not have a division or department that is labelled

the division of debt management. That is very largely

my personal responsibility. Mr. Hookin is, to a very



1 considerable extent, the one who pays more detailed
2 attention to it and does a lot of work in that area.

3 COMMISSIONER GIBSON: His work would
4 be particularly concerned with new issues and refundings
5 of securities, would it?

6 MR. TAYLOR: Well, it includes almost
7 a continuous thinking about the appraisal of the bond
8 market, the prospects of prospective requirements in
9 new issues, and so on. We work pretty closely with
10 the Bank of Canada which is the agent of the Crown
11 in this area and which handles all the actual issuing
12 of securities.

13 COMMISSIONER GIBSON: Could you give us
14 an illustration by, say, describing what happens
15 in a case of new security issues -- the various
16 offers that are taken, carrying that through to
17 what goes to the market.

18 MR. TAYLOR: I could start off by saying
19 the Minister of Finance, of course, is kept continuously
20 up to date on impending maturities, on new cash
21 requirements, and so on, and he is supplied with
22 the essential information on a fairly frequent and
23 continuous basis of what our cash requirements are
24 likely to be, and what the maturing dates are.
25 Periodically we discuss with the Minister the general
26 outlook of probable ways and means of meeting the
27 cash requirements.

28 COMMISSIONER GIBSON: "We" being the
29 senior officers of the Department of Finance?

30 MR. TAYLOR: And usually one or more



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COMMISSIONER GIBSON: "We" being the
 senior officers of the Department of Finance?
 MR. TAYLOR: And usually one or more



1 senior officers of the Bank of Canada -- in fact,
2 almost invariably. The cash requirements are largely
3 prepared by the comptroller of the Treasury, and
4 are put before the Minister, not once a week necessarily,
5 but at reasonably frequent intervals, and usually based
6 on a monthly forecast for six to ten months ahead
7 all the time. Then, at fairly frequent intervals,
8 as part of our regular sessions with the Minister on
9 a great variety of subjects, we bring up the matter of
10 future financing and indicate the kinds of problems
11 and matters that are going to arise in the course
12 of the next few months or the next few weeks.

13 COMMISSIONER GIBSON: This is a general
14 discussion with various people's opinions expressed?

15 MR. TAYLOR: Yes. In other words, the
16 Minister then is fairly steadily and continuously aware
17 of the new issue problems that are going to arise.
18 As you know, when a government announces it is going
19 to bring out a new issue, it normally makes the
20 announcement about two weeks before the delivery date.
21 Let us assume, for example, there is a maturity that
22 is due on, say, the first of June: usually, early in
23 May we will have a discussion with the Minister and
24 with our colleagues from the Bank of Canada on what
25 generally seems to be the appropriate pattern of a
26 new issue. Then we normally, as you know, announce
27 the new issue precisely at nine o'clock on Monday
28 mornings; that is not invariable, but that is the
29 usual practice. In the last couple of years or so
30 we have made a general announcement late on Friday after-

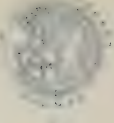


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we have used a general announcement late on Friday after



1 noon that on Monday morning we will be announcing the
2 detailed terms of a new issue. I am moving backwards
3 here. Monday is the announcement, but on Friday
4 afternoon we give advance information that there will
5 be an announcement. All government issues have to
6 be approved by the Governor in Council. That means
7 that normally the order in council approving a new
8 issue has to be passed on the Thursday because we
9 cannot formally print the prospectus and circulate
10 it to the Bank of Canada agencies across the country
11 until we have the approval of the Governor in Council.
12 So, not later than Thursday, the Governor in Council
13 passes the order in council.



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1 Then, usually on the previous weekend we have a
2 discussion with the minister and get his
3 approval of the pattern of the bond issue. Then,
4 usually on the Wednesday afternoon we have to reach
5 decisions as to the exact pricing of the new issue
6 for submission to Cabinet on Thursday morning.

7 To reverse the timetable: we discuss it on
8 the Friday and Saturday. Then possibly on Monday
9 morning the minister approves the nature of the issue.
10 On Wednesday we submit the recommendation and he
11 approves the exact pricing of the issue. On Thursday,
12 the Cabinet passes an order in council, and on Friday
13 afternoon we announce there is going to be an issue,
14 and on Monday morning there is an issue. We do vary
15 from that procedure, but that is generally what is
16 done.

17 COMMISSIONER GIBSON: From time to time you
18 have periodic meetings to discuss what is the debt
19 management situation and so on. These meetings do not
20 always result in a decision to go ahead with your issue.
21 When you find there is a problem of raising some money
22 a month or two ahead, what happens in the period between
23 the time you discuss that problem that you are looking
24 at and the time the minister approves the general pattern
25 of what you propose to do?

26 MR. TAYLOR: I did not mean to imply that we
27 had periodic meetings dealing with debt management. We
28 have regular meetings with the minister, at very frequent
29 intervals, maybe three or four times one week and once
30 or twice the next week. The minister has other



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or twice the next week. The minister has other



1 things to consider besides debt management; but at these
2 meetings we deal with a variety of matters on which a
3 minister must make decisions.

4 COMMISSIONER GIBSON: You don't have special
5 meetings at periodic intervals about this kind of thing?

6 MR. TAYLOR: No, we don't have any regular
7 session just on debt management.

8 COMMISSIONER GIBSON: When you do have a
9 meeting, and the minister decides there is to be a
10 new issue, and plans have to be made for one looking
11 ahead six weeks or two months, what happens next? Who
12 goes to work and sets up the plan?

13 MR. TAYLOR: There is no regular timetable,
14 but there is continuous contact between Mr. Hockin,
15 for example, and the Securities Section of the Bank of
16 Canada. They are in touch with each other by telephone,
17 or they have lunch together. I would say they are on
18 the telephone at least two or three times a day, is that
19 so, Mr. Hockin?

20 MR. HOCKIN: It varies.

21 MR. TAYLOR: It varies a good deal.

22 Normally, the Governor and myself meet a week,
23 ten days or two weeks before formal decisions have to
24 be reached, and the governor brings a number of his
25 senior officers with him, and I usually have Mr.
26 Plumptre and Mr. Hockin with me. We sit down together
27 for twenty minutes to an hour and a half, depending on
28 the nature of the thing, and we talk over the problem
29 as it appears to us and the pattern we should be thinking
30 of.



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1 The Bank of Canada officials, who are the agents
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3 putting up the precise pattern they think is appropriate
4 to the current situation. When it is discussed it may
5 be modified by the officials. Finally, the matter is
6 put before the minister, usually with an indication of
7 what we think is the best way of handling it; but, al-
8 most invariably we will say, "if you do not like this
9 particular line, here are some minor variations, or
10 an alternative."

11 COMMISSIONER GIBSON: Do you expect the Bank
12 of Canada Department of Securities to come to you people
13 with suggestions and proposals in this area? Do you
14 watch the market and sense what is happening?

15 MR. TAYLOR: Certainly I take a good deal of
16 interest in the general tone of the market. I get daily
17 reports as to how the market has been behaving, and if
18 there is anything moving sharply up or down, I have a
19 direct telephone line to the Bank of Canada, and all I
20 have to do is pick up the receiver, or they pick up
21 theirs. Of course, if everything is quiet and nothing
22 is happening, I don't hear much.

23 We do have some formal meetings on these
24 things. Mr. Hockin and his opposite number are in almost
25 continuous contact. I am in almost daily contact
26 with the Governor - not always on debt management, but
27 as a director of the Bank of Canada I attend meetings
28 every week. I go to see Mr. Rasminsky
29 or he comes to my office. We have many things
30 to talk about in addition to our debt management. When



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of Canada Department of Securities to come to you people with suggestions and proposals in this area? Do you watch the market and sense what is happening?

MR. TAYLOR: Certainly I take a good deal of interest in the financial market in the country. I am always nervous as to how the market has been behaving, and if there is anything moving sharply up or down, I have a direct telephone line to the Bank of Canada, and all I have to do is pick up the receiver, or they pick up theirs. Of course, if everything is quiet and nothing is happening, I don't hear much.

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1 we have these meetings, we are in fairly continuous
2 contact. As we are breaking up, I may make a remark
3 about the bond market, or Mr. Rasminsky may make remarks
4 about how he sees the bond market.

5 COMMISSIONER GIBSON: In other words, there is
6 a great deal of contact back and forth, both at the top
7 and just below it?

8 MR. TAYLOR: Yes.

9 COMMISSIONER GIBSON: Who does the digging,
10 the dog work? Who comes up and says, here is an idea?
11 Is this largely done in the Bank of Canada or in the
12 Department of Finance?

13 MR. TAYLOR: I think I am correct in saying
14 -- Mr. Hockin will correct me if he thinks he has got
15 more detail on it -- most of what we might call literal
16 research, the piling up of statistics and so on, is done
17 in the Bank of Canada.

18 I may say, I am in fairly frequent contact
19 with the bond market, in the sense that at least once or
20 twice or three times a week people drop in to see me, or
21 I talk on the telephone. In the case of Mr. Hockin, I
22 think that he is in far more frequent telephone and
23 personal contact with the investment dealers in the bond
24 market and the investment section of the chartered banks.

25 So, our officials do not compile statistics
26 or do research in that sense, but they do give a lot of
27 thought to and keep themselves aware of what is going on.

28 COMMISSIONER GIBSON: In other words, they do
29 research in the sense of producing ideas rather than
30 digging up figures.

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1 MR. TAYLOR: Yes.

2 I will make another point: I have a meeting
3 that lasts for twenty minutes to an hour every morning
4 with my Assistant Deputy Ministers and one or two other
5 senior officials - Mr. Hockin is nearly always in
6 attendance. At those meetings each of my Assistant
7 Deputies brings up the matters that are looming up.
8 Some days I may hear from the Deputy Minister of Taxation;
9 other days I may hear from Mr. Hockin, as to what is
10 going on in the bond market. In this way some ideas
11 are tossed back and forth.

12 COMMISSIONER GIBSON: Perhaps I could go on
13 to a little broader aspect of this question, by asking
14 you for your view in regard to considerations lying
15 behind debt management. I suppose the real problem of
16 debt management is the fact that the debt always shortens
17 automatically, and some way either you have to check
18 this process or occasionally try to lengthen it.
19 From your point of view, in doing this there must
20 always be a question of balance between the desire to
21 keep the cost of debt down and the desire to prevent
22 debt from becoming unduly liquid. They are two
23 considerations. Would you say a bit about the kind of
24 considerations that enter into your thinking
25 in weighing cost against liquidity.

26 MR. TAYLOR: Well, they will of course, vary
27 a good deal, depending upon the nature and general
28 atmosphere of the bond market. One cannot operate the
29 public debt on the assumption that you must always have
30 X per cent under two years and Y per cent between two



MR. TAYLOR:

Will make another point: I have a meeting at last for twenty minutes or an hour every morning with my Assistant Deputy Ministers and one or two other senior officials - Mr. Hocking is nearly always in attendance. At these meetings each of my Assistant Ministers brings up the matters that are looking up. Some days I may hear from the Deputy Minister of Taxation other days I may hear from Mr. Hocking, as to what is going on in the bond market. In this way some ideas are formed here and there.

COMMISSIONER GIBSON: Perhaps I could go on to a little broader aspect of this question, by asking you for your view in regard to considerations lying behind debt management. I suppose the real problem of debt management is the fact that the debt always absorbs automatically, and some way either you have to check this process or occasionally try to lengthen it, from your point of view, in doing this there must always be a question of balance between the desire to keep the scale of debt down and the desire to prevent debt from becoming unduly liquid. They are two considerations. Would you say a bit about the kind of considerations that enter into your thinking in weighing cost against liquidity.

MR. TAYLOR: Well, you will of course, vary a good deal, depending upon the nature and general atmosphere of the bond market. One cannot operate the public debt on the assumption that you must always have



1 and five years, and so on, but one has to give a fair
2 amount of thought as to the problem of having the issue
3 bunched together. When a new issue is being planned,
4 one has to give careful thought to quite a variety of
5 considerations. For example, what is the general tone
6 of the market? The market may be such that

7 at the first of June we do not want to put out an
8 issue, but if we had a \$300 million issue maturing
9 on June the first we would have to make a refunding
10 operation on that date.

11 The way in which we acquire additional net
12 new cash is given a great deal longer consideration.
13 For example, if on June 1, we have a maturity of \$200
14 million, and we consider that we need an additional
15 \$100 million of cash, we would normally plan to add
16 that \$100 million to the issue of June 1.

17 When we come up to the exact time, we would
18 have to give some rather careful thought to whether we
19 would make the new issue for \$150 million. We might
20 consider that a \$150 million would be an awkward issue
21 for the market at that time. So, we have to play it by
22 ear to a certain extent.

23 COMMISSIONER GIBSON: When you come up against
24 a maturity, of course you have to meet it, and you may
25 need some new money at the same time. However, you still
26 have to face the question of whether you are going to
27 turn it over on a short refunding or try to lengthen it.

28 Would you say a little bit about the
29 considerations that guide you in deciding the kind of
30 refunding you would seek on a new issue?



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1 MR. TAYLOR: We would be guided by both points
2 you have mentioned yourself. There is the desirability
3 of having the pattern of debt reasonably well spread out.
4 On the other hand, at certain stages of the economy,
5 the market may have very little interest in long
6 term, and is only interested in short term.

7 As I think is well known to you all, in recent
8 years -- that is within the last five or six years --
9 most of our issues have been in two or occasionally
10 three packages in the pattern. In other words, if we
11 are having a \$300 million in issue we may have a 15-
12 month, 18-month or 20-month bond offering, three years,
13 five years or seven years; we may offer bonds over ten
14 years or over fifteen years.

15 We do weigh these considerations very care-
16 fully. We, of course, give a fair amount of weight
17 to what we think will be the market reaction to the
18 output of this sort of pattern; we also give a good
19 deal of thought to the rather longer term aspect of
20 the total debt structure.

21 COMMISSIONER GIBSON: When you say "total
22 debt structure" you are not talking just about the debt
23 of the Government of Canada?

24 MR. TAYLOR: I mean the debt of the Government
25 of Canada.

26 COMMISSIONER GIBSON: You are thinking of
27 the provinces and municipalities from time to time?

28 MR. TAYLOR: I think you will recall that the
29 former Minister of Finance, Mr. Fleming, on at least
30 two occasions pointed out that we were staying in the



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10 three packages in the pattern. In other words, if we
11 are having a \$500 million in issue we may have a 15-
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29 former Minister of Finance, Mr. Fleming, on at least
30 two occasions pointed out that we were staying in the



1 so called shorter end of the market, or the mid-term
2 segment of the market, in order to make it more
3 readily possible for the provinces to put out their
4 longer term market bonds.

5 So, we do give a fair amount of consideration
6 to the probable requirements of the provinces and the
7 municipalities.

8 COMMISSIONER GIBSON: When you are thinking
9 in terms of lengthening the maturity of debt, or
10 preventing it from getting shorter, which you have to
11 think about to some extent, what are the main consider-
12 ations? Do you try to take advantage of possible market
13 opportunities?

14 To what extent do you gear your thinking to
15 the needs of stabilization? There seems to be a
16 potential conflict here.

17 MR. TAYLOR: As I said in the opening sentence
18 of my reply to your first question, debt management,
19 in our judgment, is an integral and overlapping part of
20 the total financial and even economic policy.
21 Therefore, we do have these matters quite clearly in our
22 minds.



to call attention to the fact that the mid-term
statement of the market, in order to make it more
readily available to the public, will be
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1 COMMISSIONER GIBSON: Yes, but suppose
2 you have a situation in which it would obviously be
3 in the interests of refunding debt at a good rate now
4 but in view of the economic situation it would not be
5 a good thing to do at that time. Generally, I
6 am thinking of a period which might be a good time
7 for refunding and reconversion of a debt but it might
8 also be a fairly flat time, and a long period might
9 elapse before business got going again and there was
10 plenty of money around. Such a time might not be
11 the best time to do it from the standpoint of economic
12 stabilization. The better time from the point of view
13 of economic stabilization would be when there was a
14 certain amount of momentum and there would be nothing
15 against putting a little brake pressure on it. Would
16 these kinds of considerations enter into the conflict,
17 or enter the picture very much?

18 MR. TAYLOR: All I can say is that I
19 think we give, in our judgment, reasonable weight to
20 all aspects of the problems involved. If, for example,
21 on the basis of what you call theory, or theoretical
22 statistics, you think we ought to have more longer
23 term issues but the long term market is pretty sick,
24 then there is obviously no point in trying to place
25 \$100 million of long term bonds on the market because
26 you will not get any offers. Even if you put on a
27 very high yield in such a case you will often get little
28 response from the market -- that is, if the market
29 is just not interested in the long term bonds.

30 I should add that we do get a lot of what



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1 I might call free advice from our friends in the invest-
2 ment market. Usually the market knows, if we have a
3 June 1 maturity of 2 or 3 hundred millions, that at about
4 May 15 we will be announcing the new bond issue, and
5 from May 1 on dealers are in very frequent contact
6 by telephone with both the Bank of Canada officials and
7 our officials saying what they think will be the best
8 kind of offering. I might say that that comes mostly
9 from Toronto and Montreal, Mr. Brown; we do not always
10 get calls from Vancouver.

11 COMMISSIONER GIBSON: We have had reported
12 to us on a number of occasions that debt management
13 policy can be used as a major adjunct to monetary policy,
14 that changes in interest rates form the central machinery
15 through which monetary policy works, and that an active
16 debt management policy designed to change interest
17 rates, operating in the interests of monetary policy
18 and economic stabilization, can be very effective.
19 I am not expressing a view on this. This view has
20 been put to us a great many times. What I am really
21 asking you is: Do you approve of deliberately using
22 interest rates through debt management as an instrument
23 of economic stabilization, apart from the usual
24 purpose of debt management which is, I presume, to
25 minimize the cost of debt?

26 MR. TAYLOR: Of course, monetary policy
27 and debt management policy have an important influence
28 on the whole interest rate structure. I do not think
29 that either the Bank of Canada or the Minister of
30 Finance can completely control the whole interest rate



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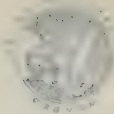
2 COMMISSIONER GIBSON: No, but they
3 can influence it.

4 MR. TAYLOR: Yes, they can influence it.

5 COMMISSIONER GIBSON: That is all this
6 theory suggests. It suggests that by a debt management
7 policy that is geared to monetary policy, the monetary
8 policy can be made more effective. That is really the
9 argument. But, this is an argument which, in effect,
10 says that at times securities should be put out when
11 interest rates are rather high and when they will make
12 interest rates higher, and I got the impression from
13 what you said a minute or so ago that such were times
14 when you would not be enthusiastic about putting out
15 new issues.

16 MR. TAYLOR: Well, it is not necessarily
17 a concern about raising interest rates, or affecting
18 interest rates, but there are occasions -- they are
19 not too frequent, but there are occasions -- when our
20 best advice and our best appraisal is that the market
21 is simply not interested in long term issues, and
22 on such occasions we would not be prepared to offer
23 a large long term bond issue.

24
25 In August, 1956 we offered a long term issue
26 due 1998; speaking from memory,
27 we offered \$350 million and the total subscriptions
28 were a great deal less than what we offered.
29 We finally placed \$250 million. I might say -- I
30 cannot give you exact figures -- that that \$250 million



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1 was not entirely bought on the open market.

2 COMMISSIONER GIBSON: But you will not
3 say that that was because interest rates were high in
4 themselves? You are saying the market was not settled --
5 or are those two things closely related?

6 MR. TAYLOR: The interest was 3 3/4
7 per cent, which was offered as a small discount. Am
8 I not correct, Mr. Hampson?

9 MR. HAMPSON: It was offered to yield
10 3.90.

11 MR. TAYLOR: Yes, that was, in our
12 judgment, a pretty attractive rate at that time. The
13 market
14 long term /rate at that time was around 3.60 or 3.65 --
15 at least, well under 3.90 -- but it happened to
16 be an August issue and perhaps a good many of the
17 dealers were up in Muskoka or some place. Anyway,
18 the reaction from the market was very negative.

19 COMMISSIONER LEMAN: Can I interject
20 something here, Commissioner Gibson?

21 COMMISSIONER GIBSON: Yes.

22 COMMISSIONER LEMAN: Mr. Taylor, you
23 have talked about a lot of meetings to consider what
24 you should do when you are thinking about new issues.
25 I would like to put the question a little differently.
26 Are there regularly written reports by some research
27 department, say in the Bank of Canada or in your
28 department, which systematically appraises past per-
29 formance and possible new patterns for debt management,
30 with all the considerations that should be taken into
account and very carefully analysed, put before you

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1 so that you may appraise the matter and thus place your
2 views before the Minister? I am thinking of real
3 carefully written reports putting the whole subject
4 down in black and white instead of merely discussions?

5 MR. TAYLOR: I would say, broadly
6 speaking, no. There are certainly no regular written
7 documents. I do not want to draw too heavily on the
8 Glassco report which said that we have too much paper
9 in the files. Perhaps Mr. Hockin would like to comment
10 on that. I get some, what you might call, notes but I
11 do not get any regular/^{written} analyses of what has been happening
12 or of what is likely to happen in the market.

13 MR. HOCKIN: I do not think there is
14 much I would add to that, Mr. Chairman. The situation
15 is that we, in conjunction with the Bank of Canada,
16 follow daily developments in the market. We are
17 aware of those through the bank's immediate contact
18 with the market. We get reports from it on a daily
19 basis about developments in the market, but in terms
20 of reports, such as Mr. Leman suggests, analysing the
21 past and setting out the future with all the con-
22 siderations that would go into them -- well, this
23 matter is dealt with by discussions rather than stacking
24 up a lot of memoranda. In the discussions all the
25 participants throw in various considerations which
26 they consider important, and then the results come
27 out in the form of a recommendation to the Minister,
28 but those recommendations do not arise originally,
29 except in very occasional circumstances, from a written
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1 COMMISSIONER GIBSON: Mr. Taylor, could
2 we put this question we have been discussing in another
3 way? What I am really asking you is: Which of the
4 two considerations, interest cost or economic stabilization,
5 is the sort of prime consideration in debt management
6 policy?

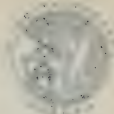
7 MR. TAYLOR: Interest costs or ---

8 COMMISSIONER GIBSON: --- or economic
9 stabilization. Do they not conflict at times?

10 MR. TAYLOR: I suppose they could, yes,
11 but when you are reaching a decision on a bond issue --
12 not just on this bond issue but when you are looking
13 ahead over the next eight to twelve months -- you
14 have to include in your consideration an appraisal
15 of a great variety of factors, and certainly economic
16 stabilization, interest rate structures, the effects
17 on the market, the implication it has for other
18 borrowing requirements and for other borrowers, are
19 all matters which you do not write out in detail
20 but which you give a pretty broad degree of consideration
21 to.

22 COMMISSIONER GIBSON: Would you say that
23 one is more important than the other -- that is, as
24 between interest costs and their contribution to
25 economic stabilization?

26 MR. TAYLOR: I think that that varies
27 again with the general situation. There are times
28 when you would give rather more weight to the interest
29 rate structure, and at other times you would give more
30 weight to the effects on the general economic atmosphere.



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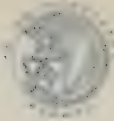
weight to the effects on the general economic atmosphere.



1 COMMISSIONER GIBSON: To turn the question
2 around, do you think taking the longer view that the
3 servicing of the national debt would cost more if
4 policy in regard to debt management were largely
5 dictated by reasons of economic stabilization? In other
6 words, if at certain times you put out issues when
7 interest rates appear to be high in the long run do
8 you think there would be any real difference?

9 MR. TAYLOR: I find it very hard to
10 give precise answers because my experience over the --
11 I have been Deputy Minister for ten years, and my
12 experience has been that no two years have been the
13 same, and that the situation is shifting a good deal
14 from time to time.

15 COMMISSIONER GIBSON: Let us build up
16 a sort of extreme example. On the one hand you could
17 conceive of a national debt policy which is designed
18 only to keep interest costs as low as possible in the
19 short run, and which you would, therefore, try to
20 refund or try to convert when there was a lot of
21 money around and interest rates were low; and pressure
22 of demand was ^{not} substantial, but you would not do this
23 kind of thing when interest rates are higher. That
24 is one extreme. The other policy might be one
25 of looking closely at economic stabilization which
26 would mean that at certain times you would pay more
27 for money than you would under the other course, but
28 the first policy might ultimately lead to the investor
29 feeling that he was always getting securities at the
30 worst time. What I am asking you is this: Is there



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COMMISSIONER GIBSON: Let us build up a sort of extreme example. On the one hand you could conceive of a national debt policy which is designed only to keep interest costs as low as possible in the short run, and which you would, therefore, try to refund or try to convert when there was a lot of money around and interest rates were low; and pressure of demand was ^{not} substantial, but you would not do this kind of thing when interest rates are higher. That is one extreme. The other policy might be one of looking closely at economic stabilization which would mean that at certain times you would pay more for money than you would under the other course, but the first policy might ultimately lead to the investor feeling that he was always getting securities at the worst time. What I am asking you is this: Is there



1 necessarily a great deal of difference in the very
2 fundamental conflict between the cost consideration
3 and the economic stabilization consideration.

4 MR. TAYLOR: I will put it this way,
5 that because of the fairly substantial increase in
6 the overall public debt in recent years we have been
7 interested in -- and we are doing our best in this
8 respect -- feeding out longer term issues whenever it
9 seems reasonably possible, or whenever we feel they
10 would be reasonably well accepted. As you know, we
11 have had occasions when we have put out long term
12 debt yielding over $5\frac{1}{2}$ per cent at a time when we could
13 have borrowed in the shorter area at an interest rate
14 of probably a full point or a point and a half lower.
15 Of course, there are occasions when the short term
16 market rate is higher than the long term market rate.
17 It does not happen very often, but it does happen from
18 time to time.

19 COMMISSIONER GIBSON: In the discussions
20 between your department and the Bank of Canada, do you
21 find that your people are more frequently taking the
22 interest cost point of view, and the Bank of Canada
23 more frequently taking the economic stabilization
24 point of view?

25 MR. TAYLOR: Or vice versa?

26 COMMISSIONER GIBSON: No.

27 MR. TAYLOR: All I can say is that I
28 think in our appraisal of making offerings in the
29 market we do continuously give consideration to all
30 the economic aspects and the effects on monetary policy,



necessarily a great deal of difference in the very
fundamental conflict between the cost consideration
and the economic stabilization consideration.

MR. TAYLOR: I will put it this way,

that because of the fairly substantial increase in
the overall public debt in recent years we have been
interested in -- and we are doing our best in this
respect -- feeding out longer term issues whenever it
seems reasonably possible, or whenever we feel they
would be reasonably well accepted. As you know, we
have had occasions when we have put out long term
debt yielding over $5\frac{1}{2}$ per cent at a time when we could
have borrowed in the shorter area at an interest rate
of probably a full point or a point and a half lower.
Of course, there are occasions when the short term
market rate is higher than the long term market rate.
It does not happen very often, but it does happen from
time to time.

COMMISSIONER GIBSON: In the discussions

between your department and the Bank of Canada, do you
find that your people are more frequently taking the
interest cost point of view, and the Bank of Canada
more frequently taking the economic stabilization
point of view?

MR. TAYLOR: Or vice versa?

COMMISSIONER GIBSON: No.

MR. TAYLOR: All I can say is that I

think in our appraisal of making offerings in the
market we do continuously give consideration to all
the economic aspects and the effects on monetary policy.



1 and not an unimportant point, of course, is the cost
2 to the treasury of a new issue. At times one gives
3 more influence to one thing than the other. It
4 depends upon the general atmosphere, and the medium
5 to longer range economic prospects. Perhaps I should
6 ask my colleagues if they have any comments to make.
7 Some of them spend more time on these things than I
8 do.

9 COMMISSIONER GIBSON: Going on to
10 securities, and still thinking about the various
11 considerations in a debt management policy, I take it
12 from what you say that developing the market for the
13 government of Canada debt is an important consideration
14 in this plan?

15 MR. TAYLOR: Yes.

16 COMMISSIONER GIBSON: Does the idea
17 of maintaining orderly markets enter into your thinking
18 in an important way?

19 MR. TAYLOR: Oh, yes, the maintenance
20 of an orderly market -- that is, not upsetting the
21 market by putting out the kind of issue that is going
22 to be, or which is thought to be highly disturbing
23 to the market -- would be a matter of very important
24 consideration.

25 COMMISSIONER GIBSON: Or keeping away
26 from the market when it was not very receptive, if
27 you could, or when it was likely to be very short in
28 certain circumstances?

29 MR. TAYLOR: Yes, though
30 in most cases, we do not have very much option on the



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consideration.

COMMISSIONER GIBSON: On keeping away
from the market when it was not very receptive, if
you could, or when it was likely to be very short in
certain circumstances?

MR. TAYLOR: Yes, though

In most cases, we do not have very much option on the



1 precise timing of our new issues because there is very
2 rarely more than three months between the dates of
3 substantial maturing issues.

4 COMMISSIONER GIBSON: Except that you have
5 done some advance refunding, and you do have an option
6 in the term of the issue which you use to refund?

7 MR. TAYLOR: Yes, when we have an issue
8 which is over a billion dollars. Take our 1961's,
9 for example, the original issue of which was about
10 \$1 billion. In that case we started a series of advance
11 refunding about a year in advance, so that when we came
12 to the maturity date we had only \$445 million outstanding.
13 We have three other issues, each of which is over \$1
14 billion -- the 65's, the 72's and the 83's. The 83's
15 are over \$2 billion. However, I would expect that we
16 will not wait until September, 1965 to take care of the
17 \$1.27 billion in 65's that are now outstanding, and
18 some time during the next twelve to eighteen months
19 undoubtedly we will start trimming down that \$1.27
20 billion of 65's. We see to it that we do not have a
21 single maturity of that size. I might add on that
22 point there that we have reached the conclusion in
23 recent years that it is better to have more frequent
24 issues of relatively smaller size than to have less
25 frequent issues of a much larger size. As you know, our
26 bond issues are acquired originally by a fairly modest
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We have three other issues, each of which is over \$1 billion -- the 62's, the 72's and the 82's. The 82's are over \$2 billion. However, I would expect that we will not wait until September, 1962 to take care of the \$1.27 billion in 62's that are now outstanding, and some time during the next twelve to eighteen months undoubtedly we will start trimming down that \$1.27 billion of 62's. We see to it that we do not have a single maturity of that size. I might add on that point there that we have reached the conclusion in recent years that it is better to have more frequent issues of relatively smaller size than to have less frequent issues of a much larger size. As you know, our bond issues are acquired originally by a fairly modest



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1 number of dealers. The total number of dealers who
2 can subscribe to new bond issues is about 270.

3 Some of those are fairly small, and it
4 takes a certain amount of time for the dealer who
5 acquires these bonds to place them in the hands of the
6 final holders. In other words, there is a period of
7 digestion.



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1 So there are certain advantages in having
2 more frequent issues of a more modest size, then by
3 having very large issues spread further apart.

4 COMMISSIONER GIBSON: In talking about an
5 orderly market, one of the points you just made is that
6 you must not have too big maturities coming in at one
7 time and you like to spread them out in more modest
8 amounts, if possible.

9 Do you think in looking at your maturity
10 problems in terms of the yield curve that from time
11 to time you look at the pattern of yields and say,
12 "This looks reasonable and we could do something here
13 and something there and have a fairly clear idea of the
14 kind of curve which you are working to at any given
15 moment"?

16 MR. TAYLOR: Yes, you do certainly look ahead
17 and you also have to appraise the factor that we know,
18 for example, that the very short term issues are largely
19 of interest to corporations; mid-term issues are of a
20 good bit of interest largely to trust companies and
21 estates; long term issues are usually of more interest
22 to the investment institutions, life insurance companies,
23 pension funds and so on. Individual firms do not tell
24 us exactly what they have got or what they are going
25 to do, but one does acquire a certain feel of how the
26 market is likely to develop in the short-term or the mid-
27 term or the long term areas.



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us exactly what they have got or what they are going

to do, but one does require a certain feel of how the

market is likely to develop in the short-term or the mid-

term or the long term areas.



1 COMMISSIONER GIBSON: It is a feel; it is not
2 a mathematical idea?

3 MR. TAYLOR: Quite, because we don't know
4 the exact information as to exactly how much of every
5 issue the institutions hold.

6 COMMISSIONER GIBSON: And in thinking in terms
7 of an orderly market, I take it you don't think in terms
8 of deviations from the yield curve which seem reasonable
9 and things look a little out of line, but that is not
10 disorderly?

11 MR. TAYLOR: No, and I keep saying that there
12 are at least a dozen things you look at there, and you
13 give them a different weight at different times. I
14 don't think you can reach decisions by just using a
15 computer.

16 COMMISSIONER GIBSON: I was going on to ask you
17 a few questions about government accounts, and I was
18 wondering if there are any of the other commissioners who
19 want to pursue this subject at the moment?

20 Well, if not, I would like to ask you, Mr.
21 Taylor, to tell us a little more about the handling of
22 the government accounts in relation to debt management
23 considerations.

24 I understand, or we understand that there has
25 been a major change in the handling of the unemployment
26 insurance accounts. Would you say something to start
27 with about the purchase accounts; how that leads into
28 debt management policy?

29 MR. TAYLOR: Well, the Purchase Fund was set
30 up in 1961, as I recall it, in the June budget;



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MR. TAYLOR: Quite, because we don't know

a mathematical theory



1 and it has been used very largely to offset the more
2 substantial disturbances in the long term market.

3 The Purchase Fund only buys bonds over ten
4 years maturity. We publish the figures every month
5 in the Comptroller statement in the Canada Gazette.

6 COMMISSIONER GIBSON: Well, is there any
7 fundamental difference between the provisions of the
8 Purchase Fund and the X Account?

9 MR. TAYLOR: Yes. The bonds acquired in the
10 Purchase Fund are in fact cancelled at the end of the
11 fiscal year, or they may be cancelled at other times.
12 We cancelled some in September of 1961.

13 COMMISSIONER GIBSON: They are not resold?

14 MR. TAYLOR: No, they are not resold; we
15 never have resold any bonds we acquired in the Purchase
16 Fund although we are not legally prohibited from doing
17 so. For the Securities Investment Account we both buy
18 and sell.

19 COMMISSIONER GIBSON: As to the fundamental
20 purposes of the two accounts, is there any real
21 difference?

22 MR. TAYLOR: The X account very
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COMMISSIONER GIBSON: As to the fundamental

purposes of the two accounts, is there any real

difference?

MR. TAYLOR: The X account very



1 largely in recent years has dealt almost entirely in
2 the shorter term issues.

3 MR. BALLS: Yes, this is true, but I think I
4 might add one short word there, that your X Account
5 or Securities Investment Account is also used for the
6 temporary investment of funds in excess of requirements.

7 COMMISSIONER GIBSON: So that there is a
8 distinction between short and long term operations here
9 as well as one simply cancelling out the debt of the
10 people trading with it?

11 MR. TAYLOR: Yes. We haven't built up the
12 huge amounts in the securities investment accounts that
13 we used to build up a decade ago, because at that time
14 we had no arrangement with the chartered banks to pay
15 any interest on, what you might call our excess cash
16 deposits, and we used to put a good deal of money into
17 the X Account.

18 Quite a few years ago we worked out with
19 the banks an arrangement whereby they pay interest
20 on our cash deposits in excess of a certain amount and,
21 on the other hand, we have, of course, used the X
22 account at times when we have had the surplus cash
23 position to provide for taking care of maturing issues.
24 For example, there was the very large build-up in the
25 investment accounts in 1955-56 -- wasn't that the time,
26 Mr. Balls? -- which was largely buying back from the
27 Bank of Canada segments of \$750 million in treasury
28 notes outstanding.

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MR. BAILLIE: Yes, this is true, but I think I

might add one short word there, that your X Account or Securities Investment Account is also used for the temporary investment of funds in excess of requirements.

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Quite a few years ago we worked out with the banks an arrangement whereby they pay interest on our cash deposits in excess of a certain amount and, on the other hand, we have, of course, used the X account at times when we have had the surplus cash position to provide for taking care of maturing issues. For example, there was the very large build-up in the investment accounts in 1955-56 -- wasn't that the time, Mr. Baillie? -- which was largely buying back from the Bank of Canada segments of \$750 million in treasury



1 During 1955 and 1956 we bought these from the Bank of
2 Canada but we didn't actually cancel them until their
3 maturity dates, which were March, May and November of
4 1955 and May of 1956.

5 COMMISSIONER BROWN: I would like to ask one
6 question at this point, and that is in the operation of
7 the X Account is the policy directed towards debt manage-
8 ment or just to give you the money invested on a short
9 term basis?

10 MR. TAYLOR: It is both, but there is the fact
11 that we don't have a debt management position in the
12 Department of Finance that focuses itself on debt manage-
13 ment. It is a basic part of the whole, as we see it,
14 of the whole issue of financial policy and, indeed, of
15 economic policy, and therefore the investment account
16 sometimes has been used to meet particular situations
17 and other times it is used to meet monetary policy.

18 I think you know that the Bank of Canada on
19 several occasions will have a very heavy inflow of
20 cash after the Christmas season; on several occasions
21 we have taken into the X Account from the Bank of
22 Canada -- one year it was \$40 million of short term
23 paper, which we then sold back to the Bank of Canada
24 on the 1st of March.

25 COMMISSIONER BROWN: That was last year?

26 MR. TAYLOR: We did it two or three times.
27 We do use the X Account from time to time to coordinate
28 with monetary policy.

29 COMMISSIONER GIBSON: Are you satisfied with
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 on the 1st of March.

MR. TAYLOR: We did it two or three times.
 We do use the X Account from time to time to coordinate
 with monetary policy.

COMMISSIONER GIBSON: Are you satisfied with



1 the way that debt management questions are organized?
2 You explain to us that it is a part of the circum-
3 stances to do with general financial and economic
4 policies, but would there be any merit in trying to
5 focus it more?

6 MR. TAYLOR: May I put it this way, I used to
7 have talks with Dr. Clark in the early part of the 1950's
8 on the government cash position -- I was Assistant
9 Deputy at that time -- but Dr. Clark really ran debt
10 management himself in cooperation with the Governor of
11 the bank. Mr. Lowe, whom you will remember, handled what
12 you might call the technical details, but starting
13 several years ago I did set up with Mr. Hockin a
14 particular set of duties in connection with debt
15 management, which is closely related to the general
16 financial functions and economic analysis. The title
17 of Mr. Hockin's position is that he is director of our
18 division of financial affairs and economic analysis,
19 and in the last three or four years he has been given
20 specific responsibility for keeping in daily or hourly
21 contact with the general financial market situation.
22 He does some other things as well, and he has certain
23 officers in his department who give a large part of
24 their time to the financial end of things in the money
25 market and the financial market.

26 COMMISSIONER GIBSON: Because it is very closely
27 related to debt management, I would like to ask you your
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their time to the financial end of things in the money
market and the financial market.

COMMISSIONER GIBSON: Because it is very closely

related to debt management, I would like to ask you your



1 views about the question of cash management as related
2 to monetary policy.

3 One of the alternatives to debt repayment or
4 repurchase of securities by one of the government
5 accounts is to build up bank balances and to hold them.
6 This general idea of building bank balances rather than
7 repaying debt has been put to us by a couple of witnesses
8 as an effective means of checking boom conditions, the
9 grounds being that the monies that the government
10 collected in taxes to repay debt were immobilized in
11 leaving them in an idle bank account rather than using
12 them as an investment so that they could be used again.
13 Would you care to make any comments about the effective-
14 ness of this sort of technique? Do you think it has
15 any merit as another method of strengthening monetary policy?

16 MR. TAYLOR: If you build up large cash
17 balances, presumably in the chartered banks, I presume
18 that the chartered banks would enlarge their portfolio
19 investments. They wouldn't earmark these particular
20 large deposits, no doubt, but a lot would depend upon
21 the general demand for loans, and so on, and I would
22 suspect that if the government built up large cash balances
23 -- \$800 or \$900 million -- and left it
24 there for long periods of time, that a lot of it would
25 move into the portfolio investments.

26 COMMISSIONER GIBSON: But this would be
27 deposits that already exist that the government takes
28 away from the public and where they are now in the
29 government's hands and it wouldn't necessarily change
30 the banks' assets would it? It already had these assets.



These are the questions of your committee to be asked
in your report.

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COMMISSIONER GAYTON: But this would be

deposits that already exist that the government takes
away from the public and where they are now in the
government's hands and it is -- generally --
the banks, would it? It already had these deposits.



1 MR. TAYLOR: Oh, but it would affect their
2 velocity of circulation.

3 COMMISSIONER GIBSON: This would slow up
4 the velocity of circulation by immobilizing these
5 particular deposits?

6 MR. TAYLOR: One question we would
7 consider is whether we were improving our financial
8 position generally by having large idle deposits in
9 the banks and paying a good deal higher interest on
10 outstanding bond issues. Another matter would be
11 what I would call the political implications, and I use
12 the word "political" in a completely non-partisan sense;
13 I am not talking about party politics, but I would
14 suspect that if for a year and a half or two years
15 we never had less than \$800 million on deposit in
16 the banks that we would have a lot of demands to
17 build more sewers, more highways, or give more to
18 universities with all this surplus cash which we
19 have.

20 COMMISSIONER MACKINTOSH: Do the Ministers
21 and these members of parliament read the Canada
22 Gazette?

23 MR. TAYLOR: Well, they may not do that
24 but they probably read certain newspapers that would
25 pick these figures up.

26 COMMISSIONER GIBSON: So, you don't see
27 this as a particularly effective technique, thinking
28 of it as an adjunct to monetary policy?

29 MR. TAYLOR: No, I really can't see
30 much in it. If you have a long term highly prosperous era,
I don't



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COMMISSIONER GIBSON: So, you don't see

this as a particularly effective technique, thinking

of adjusting to monetary policy?

MR. TAYLOR: No, I really can't see

any in it. It seems a long term highly propagandist



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1 think there would be very much advantage in building up
2 long term surplus cash deposits in order to use them
3 at some later date to pay off debt rather than to have
4 to make new issues.



1 COMMISSIONER GIBSON: Presumably the
2 alternative would be to have a somewhat tighter monetary
3 policy, if you did not do this sort of thing. Is this
4 a basic device to slow up the velocity of circulation?
5 If you do not slow it up that way, do you try to slow
6 it some other way? I take it you are saying there
7 are other ways just about as good as this way.

8 MR. TAYLOR: I would think so. I don't
9 know whether the economists have any views on it.

10 MR. PLUMPTRE: I think, like you Mr.
11 Taylor, the practicability in terms of what you have
12 called political, of building up and holding over a
13 substantial period a large volume of government deposits,
14 very severely limits the usefulness of this theoretically
15 attractive device.

16 MR. GIBSON: That is all I have for
17 the moment, Mr. Chairman.

18 THE CHAIRMAN: We will adjourn for fif-
19 teen minutes.

20 --- Recess.

21
22 THE CHAIRMAN: We will now resume.

23 Mr. Taylor, there are one or two questions
24 I would like to ask you about the relative responsibilities
25 of the Department of Finance and the Bank of Canada.
26 At page 90 of your brief you refer to section 20 (2)
27 of the Bank of Canada Act, which says:

28 The Bank shall, if and when required
29 by the Minister so to do, act as
30 agent for the Government in the payment



Presumably the

alternative would be to have a somewhat tighter monetary policy, if you did not do this sort of thing. Is this a basic device to slow up the velocity of circulation? If you do not slow it up that way, do you try to slow it some other way? I take it you are saying there are other ways just about as good as this way.

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MR. GIBSON: That is all I have for

the moment, Mr. Chairman.

THE CHAIRMAN: We will adjourn for fif-

teen minutes.

--- Rescess.

THE CHAIRMAN: We will now resume.

Mr. Taylor, there are one or two questions

I would like to ask you about the relative responsibilities

of the Department of Finance and the Bank of Canada.

At page 90 of your brief you refer to section 20 (2)

of the Bank of Canada Act, which says:

The bank shall, if and when required

by the Minister so to do, act as

agent for the Government in the payment



1 of interest and principal and generally
2 in respect of the management of the
3 public debt of Canada.

4 Then it goes on to say that the Bank has been directed
5 to perform this function.

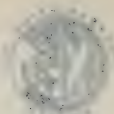
6 I am not clear in my mind as to how
7 far the authority extends, as given to the Bank under
8 that direction. As I understand it, the Bank of
9 Canada is responsible for the monetary policy. I
10 take that to mean -- and you will correct me if
11 I am wrong, because I want to get this clarified --
12 that the Bank of Canada has discretionary power in
13 monetary policy, and does not have to obtain the
14 approval or consent of the department every time a
15 decision is made. That is, it does not have to have
16 approval for every decision as to the expansion or
17 contraction of the money supply, or of the various
18 other strictly monetary matters that are within its
19 jurisdiction. Is that assumption correct?

20 MR. TAYLOR: The Bank of Canada does
21 not legally have to get the consent or approval of
22 the Minister or the Governor in Council on monetary
23 policy.

24 THE CHAIRMAN: But if some issues
25 arise at any time, when there is conflict in opinion
26 between the government and the Bank, then of course
27 the government's decision overrides that of the
28 Governor of the Bank.

29 MR. TAYLOR: Well --

30 THE CHAIRMAN: Perhaps not legally, but



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1 is that not now fairly well accepted?

2 MR. TAYLOR: There has been a fair amount
3 of publicity on the subject in the past. Perhaps
4 I can say this, although it is perhaps not quite
5 proper, that the Governor of the Bank meets quite
6 regularly with the Minister of Finance. Mr. Rasminsky
7 has referred to this on a number of occasions. I
8 understand that when they meet they sit around a table
9 and the Governor brings the Minister up to date in
10 what is going on in the financial markets, and the
11 Minister of Finance exchanges views with the Governor
12 on a variety of economic matters. In that sense
13 the Governor of the Bank is in certain areas an
14 advisor to the Minister.

15 THE CHAIRMAN: At the moment I want to
16 compare the functions of the Bank with reference to
17 debt management and the functions of the Bank with
18 reference to monetary policy. It seems to me there
19 must be some differences between them. I may be wrong
20 in that; if so, I would like clarification.

21 MR. TAYLOR: May I comment on this
22 statement from section 20 (2) of the Bank of Canada
23 Act, where it says "generally in respect of the
24 management of the public debt of Canada". That, I
25 think it is fair to say, applies to the administrative
26 side. The Bank of Canada administers completely the
27 public debt. They cash the coupons; they make the
28 interest payments; they have a staff of several hundred
29 persons who handle all the mechanical side of the
30 administration of the public debt.

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1 THE CHAIRMAN: It is more or less a non-
2 discretionary function - they administer the policy
3 once it is made.

4 MR. TAYLOR: They administer the policy,
5 and they do a tremendous amount of mechanical work.

6 THE CHAIRMAN: I want to be quite clear
7 on the point. When I first read this comment I was
8 not clear as to the limits of the activities of the
9 Governor of the Bank of Canada with respect to debt
10 management policy. From what you say, there is
11 apparently no question about that.

12 MR. TAYLOR: The Governor of the Bank
13 is certainly an advisor to the Minister of Finance
14 on debt management policies.

15 THE CHAIRMAN: But once the Minister
16 decides on the policy, having been advised by the
17 Governor and by yourself, and by the department
18 generally, then his decision must be carried out?

19 MR. TAYLOR: Yes.

20 THE CHAIRMAN: And the monetary policy
21 will have to adjust itself, if necessary, to that
22 decision with respect to debt management.

23 MR. TAYLOR: I think I should add again
24 that the Bank of Canada and the Department of Finance
25 are not completely separate and isolated divisions.
26 We are in constant contact with each other with respect
27 to all sorts of broad economic policies. We have a
28 lot of conversation with the Bank and of course with
29 other government departments. We discuss these
30 matters with Trade and Commerce, with Privy Council,



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that the Bank of Canada and the Department of Finance

are not completely separate and isolated divisions.

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to all sorts of broad economic policies. We have a

very close working relationship with the other

other government departments. We discuss these

matters with Trade and Commerce, with Privy Council,



1 with External Affairs -- indeed, there are very few
2 watertight departments in Ottawa.

3 THE CHAIRMAN: That may be so, but when
4 you come to the question as to who has the responsibility,
5 then you have to decide where that responsibility lies.

6 MR. TAYLOR: Yes. The Minister of
7 Finance is responsible for debt management, and the
8 Governor of the Bank is responsible for monetary
9 policy.

10 THE CHAIRMAN: Subject to the overriding
11 authority of the Minister when there is a disagreement
12 on monetary policy. Is that right?

13 MR. TAYLOR: I am not sure whether you
14 are referring to the statutes --

15 THE CHAIRMAN: That is not a statutory
16 provision. Is that situation not generally accepted
17 now?

18 MR. TAYLOR: I think you had better
19 ask the Governor.

20 THE CHAIRMAN: Very well. That is all.

21 COMMISSIONER BROWN: Mr. Chairman,
22 I would like to ask a few questions about some of
23 the details of debt management and the operations of
24 new issues. First, I should like to ask Mr. Taylor
25 about some issues other than the standard bond issues,
26 with particular reference to the convertible issues.

27 There were three convertible issues,
28 two of which have now gone past their conversion date.
29 I would like to ask if the existence of these
30 conversion issues in the market has caused any problems



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1 in debt management or monetary policy.

2 MR. TAYLOR: We have had two types of
3 conversion issue. There was one, you may recall,
4 where the owner had the option of an advance en-
5 cashment; he had the right to surrender his bonds
6 and be paid off at the issue price at any time, on
7 three months notice prior to the maturing date.

8 Then we had three other issues, includ-
9 ing one government guaranteed C.N.R. issue, which
10 would mature in a fairly short term,

11 but were extendable at any time
12 within a few months of the maturing date into a long
13 term issue.

14 My impression is those were found to
15 be pretty acceptable to the market.

16 COMMISSIONER BROWN: I grant you,
17 they were acceptable to the market. I was asking
18 whether the existence of a bond of short maturity --
19 let us take the 5½'s of April, 1963, as they approach
20 the last conversion date of December 31, did they
21 cause any problem for debt management or monetary
22 policy?

23 MR. TAYLOR: Well, in appraising a
24 new issue through last Autumn, for example, our
25 estimate or our guess was that a very high pro-
26 portion of the \$446 million would be outstanding. It
27 was our estimate throughout last Autumn that at least
28 90 per cent, and perhaps more, would be extended into
29 the 76's. Therefore, we had to be aware of the fact
30 that there would be in the market another roughly \$400



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conversion issue. There was one, you may recall,

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MR. TAYLOR: Well, in appraising a

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portion of the \$400 million would be outstanding. If

was our estimate throughout last Autumn that at least

50 per cent, and perhaps more, would be expended into

the market, we had in the market another roughly \$400

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1 million or more of long term government bonds. There-
2 fore, we had to decide whether we would make a long
3 term issue, and if we did so we would have to take
4 into consideration the fact that there would be
5 \$400 million or more of long term bonds created by
6 December 31.

7 This was one of a dozen or more con-
8 siderations that were in our minds when we gave advice
9 as to what kind of issue we should make last Autumn.

10 COMMISSIONER BROWN: I would like to
11 ask one or two questions about savings bonds, and I
12 shall try to ask my questions so that they do not
13 involve policy answers. I wonder if you would like
14 to tell us to what extent the conversions that take
15 place, particularly in a market such as the one we
16 had last fall, add to the cost of an issue in the
17 sense of bringing up a double commission, and also
18 add to the interest cost that you have to pay on
19 outstanding issues.

20 MR. TAYLOR: Well, it would be rather
21 complicated to describe precisely what the costs are.
22 On the very broad average in most Canadian savings
23 bond issues about half of them are cashed within two
24 and a half to three years. Of course, there are
25 occasions when the later savings bond issue carries
26 a higher coupon. In those instances there is
27 naturally a very substantial encashment of the lower
28 coupon bonds into the higher coupon bonds. There,
29 on the question of cost, we have paid commission
30 on the sale of the first issue, and we are paying

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Toronto, Ontario

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1 commission on the sale of the second issue. That
2 does add an element of cost.



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and the movement of cost.

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1 COMMISSIONER BROWN: Does your department
2 make a study of the cost of an issue? It must be
3 obvious that there are going to be these conversions
4 when you are arriving at a decision as to the interest
5 rates which are going to be paid on the new issue. Is
6 this cost that is going to come about because of con-
7 versions taken into consideration?

8 MR. TAYLOR: Yes. When we are planning the
9 terms of the forthcoming issue of Canada Savings Bonds
10 a very important consideration is in devising the
11 appropriate schedule of coupons to see to what extent
12 the rate is likely to invite a large amount of con-
13 version. For example, if the coupon on an issue of
14 two or three years ago for the coming year is lower
15 than the initial coupon on the new issue and all
16 subsequent ones are somewhat higher then there is a
17 natural invitation to convert. You will find that a
18 high proportion of the holders of the three year older
19 bonds will convert them into the new bonds. In devising
20 the structure of a new Canada Savings Bonds issue that
21 is a very important consideration which is given very
22 careful attention.

23 MR. PLUMPTRE: I was going to say that we
24 are engaged at this very moment in an attempt to put
25 down an appraisal and estimate of the costs of Canada
26 Savings Bonds, and any such appraisal involves
27 assumptions, but at least it should give the general
28 order of magnitude of the costs. It is our belief
29 that there is some misunderstanding about the country
30 as to the general level of the costs involved, but if

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7 siderations which you are making?

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1 we find it is practicable to put this together I would
2 think, Mr. Taylor, that we might make it available to
3 the commission.

4 MR. TAYLOR: Yes, we have had some enquiries
5 about this, and we are doing some serious work on it,
6 but we have not got it completed yet.

7 COMMISSIONER BROWN: Have you an opinion as
8 to the extent to which these savings bonds are, firstly,
9 attracting investment in Canadian bonds which otherwise
10 would not come, and, secondly, competing with what would
11 otherwise be investment in other long term capital bonds?

12 MR. TAYLOR: Well, one does not have any
13 precise statistics on this, but I would like to point
14 out that with respect to normal market issues the number
15 of buyers -- that is the buyers of issues of \$250
16 million or \$300 million -- is somewhere between 15,000
17 and 25,000 persons. It varies to some extent, of course,
18 during different seasons of the economy. With respect
19 to Canada Savings Bonds we get buyers each year who
20 total somewhere between a million and a million and a
21 half. I think at one time it got very close to a
22 million and a half buyers of Canada Savings Bonds.

23 There is, of course, some switching of that
24 into market issues which show a more attractive rate,
25 but that switching comes almost entirely, I believe,
26 from holders of Canada Savings Bonds in large amounts.
27 Canada Savings Bonds, as you know, have been limited
28 in recent years to a maximum of \$10,000 per person, but
29 an individual who has a large supply of cash can buy
30 \$10,000 in his own name, \$10,000 in his wife's name and



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There is, of course, some switching of that into market issues which show a more attractive rate, but that switching comes almost entirely, I believe, from holders of Canada Savings Bonds in large amounts. Canada Savings Bonds, as you know, have been limited in recent years to a maximum of \$10,000 per person, but an individual who has a large supply of cash can buy \$10,000 in his own name, \$10,000 in his wife's name and



1 \$10,000 in his daughter's name.

2 Last summer, for example, when we issued an
3 18-year bond to yield a little over $5\frac{1}{2}$ per cent there
4 was quite a noticeably large encashment
5 of Canada Savings Bonds in the several weeks following
6 that issue. We have good reason to believe that that
7 was by the more well-to-do holders of Canada Savings
8 Bonds who were switching into these higher interest
9 yielding market issues.

10 But, the great bulk of the holders of
11 Canada Savings Bonds appear to be people who are not
12 terribly interested in the market issues. Those are
13 the people who buy \$100, \$200, or \$300 of bonds, and
14 we have no recent market issues where the security is
15 less than \$500; \$500 is the minimum size of bond.

16 COMMISSIONER BROWN: This might be an unfair
17 question to ask you, but would there be some merit in
18 lowering the maximum that might be purchased by any one
19 buyer?

20 MR. TAYLOR: All I can say is that the amount
21 has been varied. At one time it was limited to
22 \$2,000, and during one year we allowed \$20,000 -- that
23 was in 1959 -- and now it is limited to \$10,000. All I
24 can say is that we have had representations from the
25 dealers that we ought to have a limit of \$1,000.

26 COMMISSIONER BROWN: You mentioned that
27 approximately half of each issue is encashed within
28 $2\frac{1}{2}$ to 3 years. Is there a noticeable difference between
29 the speed of encashment of bonds than are taken on the
30 payroll basis as against those taken on a cash basis?

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Last summer, for example, when we issued an 18-year bond to yield a little over 5 1/2 per cent there

was quite a noticeable jump in the price of Canada Savings Bonds in the several weeks following that issue. We have good reason to believe that that was by the more well-to-do holders of Canada Savings Bonds who were switching into these higher interest

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COMMISSIONER BROWN: You mentioned that approximately half of each issue is encashed within 2 1/2 to 3 years. Is there a noticeable difference between the speed of encashment of bonds that are taken on the



1 MR. TAYLOR: Some studies have been conducted
2 on that, but we have no detailed statistics. I think
3 it varies a good deal, and I doubt very much if there
4 is any pronounced difference between the ones bought
5 through the payroll deduction plan and the other ones.
6 I have not a precise estimate.

7 COMMISSIONER BROWN: The total outstanding
8 of Canada Savings Bonds has been growing and is becoming
9 a much more important proportion of the total debt. It
10 is over 20 per cent now.

11 MR. TAYLOR: Yes.

12 COMMISSIONER BROWN: Have you a view on an
13 appropriate maximum? This is increasing the liquidity
14 of the general public?

15 MR. TAYLOR: Yes, but it is held very largely
16 -- indeed, overwhelmingly -- by people who would not
17 ordinarily acquire market issues. The amount outstanding
18 as of January 2, -- this is from the statements of the
19 Bank of Canada -- is \$4.6 billion, which is \$538 million
20 more than on the same date a year ago. As you say,
21 that is just over one quarter of the direct
22 outstanding bond issues.

23 COMMISSIONER BROWN: Well, is there an
24 appropriate maximum? Would you be quite happy to
25 see this go up to a half of the outstanding debt, or
26 is that an unfair question?

27 MR. TAYLOR: That is an unfair question --
28 or, one that I cannot hear.

29 COMMISSIONER LEMAN: Mr. Brown, may I inter-
30 ject a question here?



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or, one that I cannot hear.

COMMISSIONER BROWN: Mr. Brown, may I inter-

pose a question?



1 COMMISSIONER BROWN: Surely.

2 COMMISSIONER LEMAN: Presumably it is not
3 unfair to ask you if there has been a change in concept
4 relative to savings bonds from the beginning when they
5 were first issued, and the reasons why they are issued
6 now? What are the main features of the instrument from
7 the point of view of federal governments?

8 MR. TAYLOR: You will recall that the Canada
9 Savings Bonds emerged from the Victory Loans. The
10 Victory Loans were handled on somewhat the same basis,
11 they were sold to hundreds of thousands of people, and
12 in 1946 -- I was not then in the Department of Finance --
13 I understand there was a very strong view that the
14 ordinary people of Canada liked the Victory Bonds, and
15 looked forward to having a similar opportunity of buying
16 bonds in the lower denominations of \$50, \$100 and so on.
17 So, the Canada Savings Bonds were launched on that basis,
18 and they have continued ever since. They have
19 proved to be quite popular with the rank and file of the
20 citizens of this country, and the government, naturally,
21 from time to time gives consideration, and has been
22 giving consideration, as to whether it should continue
23 Canada Savings Bonds, and so far the decision has been
24 in the affirmative.

25 COMMISSIONER LEMAN: Some people used to say
26 that part of the objective was education. If they were
27 just to replace the Victory Loans Bonds then I would not
28 think that was an educational objective.

29 MR. TAYLOR: It was not to replace; it was to
30 carry on the system of making bonds available to what



COMMISSIONER LEWIS: Presumably it is not

unfair to ask you if there has been a change in concept relative to savings bonds from the beginning when they were first issued, and the reasons why they are issued now? What are the main features of the instrument from the point of view of Federal Government?

MR. TAYLOR: You will recall that the Canada

Savings Bonds emerged from the Victory Loans. The Victory Loans were handled on somewhat the same basis, and they were sold to hundreds of thousands of people, and in 1945 -- I was not then in the Department of Finance -- I understand there was a very strong view that the ordinary people of Canada liked the Victory Bonds, and looked forward to having a similar opportunity of buying bonds in the lower denominations of \$50, \$100 and so on. So, the Canada Savings Bonds were launched on that basis, and they have continued ever since. They have

proved to be quite popular when the rank and file of the citizens of this country, and the Government, naturally, from time to time gives consideration, and has been giving consideration, as to whether it should continue Canada Savings Bonds, and so far the decision has been in the affirmative.

COMMISSIONER LEWIS: Some people used to say that part of the objective was education. If they were just to replace the Victory Loans Bonds then I would not think that was an educational objective.

MR. TAYLOR: It was not to replace; it was to

carry on the system of making bonds available to what



1 you might call the ordinary people of Canada.

2 COMMISSIONER LEMAN: Giving them an instrument
3 that they like by which they can put small savings aside
4 and thus earn an effective rate of interest is one thing,
5 but teaching people to hold government bonds is another
6 objective. Has that changed? Do you still attach
7 importance to the educational factor?

8 MR. TAYLOR: They have two important functions,
9 I think. One is that they provide an opportunity for
10 developing the savings habit among the ordinary people,
11 and I think they have no doubt that quite a few
12 people have got into the habit now of acquiring market
13 issues, but the number of holders of market issues
14 is still a very small fraction of the
15 total adult population.

16 COMMISSIONER LEMAN: I am just wondering if
17 you will ever extend the market for market issues if
18 you keep on making Canada Savings Bonds so readily
19 available. That is really the meaning of my question.

20 MR. TAYLOR: It is hard to say. There are
21 other ways, of course, in which you can invest small
22 savings.

23 COMMISSIONER BROWN: Recently -- I have
24 forgotten the year, but it was two or three years ago --
25 the eligible buyers of Canada Savings Bonds were
26 extended to include estates. This would not fit into
27 either of these objectives. I was wondering why this
28 extension was made?

29 MR. TAYLOR: It was based on various
30 representations from the trust companies, and so on,



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1 who put forward what they felt was a very strong case.
2 They said that they often have in estates modest sums
3 of money which they would like to invest in something
4 that could be held for two, three or five years before
5 it was encashed, and they thought that Canada Savings
6 Bonds provided a useful way of earning interest on these
7 sums of money. They are still limited, of course, to
8 \$10,000 per estate in this case.

9 It was after two or three or more years of
10 representations from the people concerned that the
11 government finally agreed to accede to their request.

12 COMMISSIONER BROWN: This was directly fairly
13 competitive with market issues, was it not?

14 MR. TAYLOR: Yes, I suppose it is, and it is
15 also competitive with the trust companies themselves
16 with respect to their optional two, three or five-year
17 pieces of paper.

18 COMMISSIONER BROWN: I think partly as a
19 result of the leadership that has been given by the
20 federal government in the issue of Canada Savings
21 Bonds various provinces have gone into the issue of
22 parity bonds.

23 MR. TAYLOR: Yes, three provinces, British
24 Columbia, Saskatchewan -- Saskatchewan was first, I
25 think, and then British Columbia, and then Manitoba.

26 COMMISSIONER BROWN: I think British Columbia
27 was first.

28 MR. TAYLOR: Yes, it was for toll bridges,
29 was it not?

30 COMMISSIONER BROWN: The Pacific Great Eastern.



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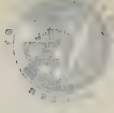
1 Have these issues posed any problems so far as the
2 federal government is concerned in the operation of its
3 monetary policy? I am thinking of their effect on the
4 liquidity of the country.

5 MR. TAYLOR: I would say, first of all, that
6 they have had a modest effect on the issue of Canada
7 Savings Bonds. In the first year that British Columbia
8 issued parity bonds there was a very small decline in
9 the subscription for Canada Savings Bonds in British
10 Columbia in the following autumn. When Manitoba issued
11 parities at 5 per cent there was a modest amount of
12 encashment of Canada Savings Bonds by our Winnipeg office
13 at that time, but it was only a few million dollars, and
14 during the following autumn the buyers of /savings bonds
15 in Manitoba showed no identifiable decline.

16 COMMISSIONER BROWN: I was not thinking so
17 much from the point of view of competition with the sale
18 of Canada Savings Bonds, or competition with the
19 Government of Canada in acquiring funds, but, rather,
20 the extent to which this increased liquidity in the
21 public holdings has affected monetary policies
22 generally.

23 MR. TAYLOR: I suppose it does in a way.
24 In British Columbia, where I understand there was no
25 limit on the amount of your purchases of parity bonds,
26 it was not too different an effect from what it would
27 have been had these been demand notes. The monetary
28 policy was not too different from that with respect
29 to an issue of short term paper.

30 COMMISSIONER BROWN: The size was such that



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1 it was not likely to affect it so far as you were
2 concerned?

3 MR. TAYLOR: What was the exact amount in
4 British Columbia?

5 COMMISSIONER BROWN: \$212 million.

6 MR. TAYLOR: Well, that was a lot. Manitoba's
7 was limited to about \$40 million, and Saskatchewan put
8 a limit on them of about \$5 million on one occasion,
9 and a limit of \$10 million on another occasion. They
10 would have some effect, yes, on increasing the liquidity.

11 COMMISSIONER BROWN: But you have not
12 consciously had to take it into consideration at all?

13 MR. TAYLOR: We have not done any precise
14 analysis of it. At least, I have not done, and I do
15 not think my department has done, any precise analysis
16 but it is one of those things which we gave a certain
17 amount of thought to in our discussions of the general
18 debt situation and debt management.

19 COMMISSIONER BROWN: Unless the other
20 commissioners have questions they would like to ask
21 with respect to Canada Savings Bonds, I would like to
22 go on to ordinary bonds. Recent government issues have
23 been made without any call features at all. It has been
24 suggested to us by several people that this has, in
25 effect, tied the hands of the government unnecessarily.
26 Would you care to comment on this?

27 MR. TAYLOR: This is a matter of judgment
28 again. I think the last/^{domestic} issue that had a call feature
29 to it was the 75-78's. I am not quite sure -- have you
30 anything more up to date, Mr. Hockin?



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anything more up to date, Mr. Hooking?



1 MR. HOCKIN: No.

2 MR. TAYLOR: That was about ten years ago.

3 I recall at that time almost all our bond issues had
4 callable dates -- some of them as much as five years --
5 and as you approached within three years of the callable
6 dates it used to be regarded as being a rather uncertain
7 kind of bond issue. I recall at that time we got a lot
8 of opinions expressed that callable dates were not very
9 attractive, and the borrowers preferred the non-callables.
10 I should add that we did issue the '96-'98 bonds in
11 1956.

12 On our New York issue which we placed last
13 September maturing in 1987 is callable in whole or
14 in part after 15 years.

15 COMMISSIONER BROWN: The call features
16 that did exist would enable you to call at par ahead
17 of time?

18 MR. TAYLOR: Or sometimes at a premium.

19 COMMISSIONER BROWN: I was going to ask you
20 about the premium feature because the recent Canadian
21 bonds have been just at par, not ---

22 MR. TAYLOR: Yes.

23 COMMISSIONER BROWN: The last one that was
24 called would be the 66's which were called in 1961.

25 MR. TAYLOR: The 66's were converted.

26 COMMISSIONER BROWN: Was there not a $3\frac{1}{4}$ per
27 cent issue?

28 MR. TAYLOR: I beg your pardon?

29 COMMISSIONER BROWN: I thought there was
30 another issue that was called. Would you care to comment
on the possibility of having them callable at a premium?



MR. TAYLOR: There was about ten years ago

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1 MR. TAYLOR: I really have not given that
2 much thought in the recent years. We have just decided not
3 to have callables. But, our New York issue is callable
4 at a premium at first and then the premium declines year
5 by year until the 20th year, and from the 20th year on
6 it is callable at par.

7 COMMISSIONER BROWN: Was there any question
8 from the buyers in New York to have a straight non-
9 callable bond?

10 MR. TAYLOR: I really cannot go into detail
11 there. All I can say is that in the discussions the
12 appropriate form or pattern of the issue was looked at
13 from almost every conceivable angle, and the issue that
14 was put forward turned out to be very acceptable.

15 COMMISSIONER BROWN: What I am really trying
16 to get at is why you have tied your hands with non-
17 callable issues in Canada when, apparently, you made
18 a callable issue very successfully in New York.

19 MR. TAYLOR: We took a fair amount of advice
20 from the market, and, generally speaking, the market
21 in Canada has taken a dim view of callables in recent
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1 COMMISSIONER BROWN: From the buyers'
2 point of view, I agree that it is better to have a non-
3 callable bond.

4 MR. TAYLOR: You have to sell to buyers.

5 COMMISSIONER BROWN: I just wondered
6 whether any careful study had been made as to what the
7 ~~alternative~~ costs are of a callable bond and a non-
8 callable bond. Have you an estimate of what the
9 increase in yield cost would be?

10 MR. TAYLOR: No, you cannot put any
11 price tag on it. All you can say is that if you
12 get a substantial callable date, say, three to five
13 years ahead of the final maturity, in our view you
14 would have to have a slightly higher yield. Whether
15 it is five basis points or ten or fifteen basis points,
16 is a matter of appraisal and judgment.

17 COMMISSIONER BROWN: Another suggestion
18 that has been made to us is in connection with dis-
19 counts on short term bonds is that this has been an
20 unnecessary advantage to give to tax-paying buyers,
21 which has been offset in part by the relative
22 unattractiveness to financing institutions that do
23 not have the tax gains. How is this taken into
24 consideration in arriving at the basis for making
25 an issue?

26 MR. TAYLOR: Well, there are two points.
27 One is a very minor one, namely, that in Canada
28 one very rarely issues bonds that have coupon rates
29 that are not multiples of quarters. It is true that
30 the C.N.R. did put out bonds with a coupon rate of



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1 2 7/8 some years ago, but generally speaking in Canada
2 the coupon rates are in fractions of quarters. There-
3 fore, when you are pricing bonds, if you were still
4 in the short term area you would adjust the price
5 to produce a yield that seems to be consistent with
6 the current market.

7 It is quite true that the corporate
8 buyers have a considerable interest in and look very
9 carefully at what they call the non-tax yield --

10 COMMISSIONER BROWN: The after-tax
11 yield?

12 MR. TAYLOR: Yes, the after-tax yield
13 of securities. You will recall that two years ago
14 we amended the Income Tax Act to provide that in
15 effect you cannot issue bonds at a discount which
16 has a yield which represents more than one-third of
17 the coupon rate.

18 COMMISSIONER BROWN: One-third above
19 the coupon rate?

20 MR. TAYLOR: One-third above the
21 coupon rate; that is, if you have a 3 per cent coupon
22 it cannot be sold at a price to yield more than 4.

23 COMMISSIONER BROWN: In this con-
24 sideration of the best piece of paper to sell to the
25 market, has a possibility of a definite sinking fund
26 in connection with the issues been discussed, and
27 how much weight has been given to this?

28 MR. TAYLOR: It has been discussed,
29 but certainly not in my time have we ever had any
30 sinking fund bonds, although on a recent issue we did



1 provide for buying below the issue price of a small
2 fraction of the outstanding amount.

3 MR. PLUMPTRE: Yes.

4 MR. TAYLOR: The C.N.R. started that
5 four or five years ago. We may have had sinking
6 fund issues in the fairly distant past. I cannot
7 recall any.

8 We have one issue that is a liability
9 of ours now, which has sinking fund requirements. That
10 resulted from when we took over the Newfoundland debt,
11 and that was a sterling issue that had sinking fund
12 requirements, and naturally we have been meeting those
13 sinking fund requirements.

14 COMMISSIONER BROWN: I was asking you
15 if you had any studies made as to the cost of putting
16 in a call feature. I wonder whether you had any
17 studies made of the advantages of putting in a sinking
18 fund feature?

19 MR. TAYLOR: We certainly have given
20 thought to it. We have not done any elaborate
21 mathematical calculations, but the Bank of Canada,
22 acting as our fiscal agency, may have.

23 COMMISSIONER BROWN: You mentioned
24 C.N.R. issues and it gives me an opportunity to ask
25 a question on a point which has been put to us on
26 several occasions. Why have C.N.R. issues? Why
27 not just have the government borrow the money and
28 lend it to the C.N.R.? The C.N.R. issues historically
29 at five to ten basis points higher than Canada issues.

30 MR. TAYLOR: It goes back historically,

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1 of course, there being C.N.R. issues I think almost
2 since the C.N.R. was legally set up. The question
3 has arisen from time to time on issuing guaranteed
4 bonds for other Crown corporations, but the govern-
5 ment decisions in the past have been not to do so.
6 For example, we did not issue any St. Lawrence Seaway
7 bonds and we did not issue any Central Mortgage and
8 Housing Corporation bonds, although we have sold insured
9 C.M.H.C. mortgages.

10 I am told there was a time when invest-
11 ment institutions liked to distribute their port-
12 folio and would like to have some railway bonds.

13 I am told that was more true in the United States
14 than in Canada, but the practice has been, as I have
15 said, for the last forty years or so to issue C.N.R.
16 bonds, fully guaranteed by the government of Canada.

17 I understand this matter was raised
18 when the C.N.R. re-capitalization was put into effect
19 some ten years ago, I believe in 1951-52, and the
20 decision of the government then was to continue the
21 C.N.R. issues. We do, as you know, provide the C.N.R. with
22 short term fund requirements. We advance money and from
23 time to time they put out market issues to repay
24 our advances. That is the general theory involved.

25 COMMISSIONER BROWN: Is the historical
26 existence of this the only reason for carrying it on?

27 MR. TAYLOR: It was the definite
28 government decision and it is now in the C.N.R.
29 statutes that they have the right or authority to
30 borrow from us and they also have the authority to



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1 borrow in the public market. Each year parliament
2 passes the Financial Guarantee Act, which provides
3 for C.N.R. borrowings.

4 COMMISSIONER BROWN: It has been
5 suggested again to us that Canada ought again to
6 consider an issue of perpetuals. The last issue
7 was not entirely popular. Has this been actively
8 considered at all?

9 MR. TAYLOR: I may say that the
10 Minister of Finance and the Department of Finance
11 receive four or five letters per month from holders
12 of permanents, and more and more are expressing,
13 of course, the hope that we are going to redeem them
14 in 1966, which is the optional date for redeeming the
15 perpetuals. The present market price is 65, 68,
16 or somewhere around there. Of course, the perpetuals
17 were a very major part of British financing back
18 in the nineteenth century. In those days investors,
19 when investing, were looking for a flow of income.
20 Investors today give equal attention to capital gains
21 or losses.

22 COMMISSIONER BROWN: Well, at the
23 opposite end of the strata I suppose one could say
24 that some people are from time to time putting up
25 the suggestion of index bonds. This is probably
26 a pretty big subject but perhaps you could just
27 say whether this is considered from time to time.

28 MR. TAYLOR: I am quite aware of the
29 subject and I have read a good many of what you might
30 call the theoretical articles on the subject. There



1 have been some issues, have there not, in other
2 countries? My understanding is they have proved
3 to be not very effective or not very successful.
4 I think I can say that the idea of an index bond
5 has been mentioned in the course of discussion
6 with the government on a number of occasions to my
7 knowledge, in the last decade, but I can say it has
8 never been seriously considered in Canada.

9 COMMISSIONER BROWN: I should like to
10 go on a little bit to the methods of issue and get
11 your opinion of the pros and cons of the government
12 announcing well in advance a schedule of their
13 prospective borrowings over a period of time.

14 MR. TAYLOR: The Minister of Finance,
15 in recent years, has always included a few paragraphs
16 in his Budget Speech regarding the cash requirements,
17 and has usually set out a table showing the major
18 items of these requirements and also the maturing issues
19 during the coming year. There have been occasions
20 when the Minister of Finance has, in announcing a
21 bond issue, made a statement that he thinks that
22 over the next six months we will require a certain
23 amount of additional net new cash, and that sort of
24 thing. However, the government has not in practice
25 made regular, precise statements as to its future
26 borrowing plans.

27 COMMISSIONER BROWN: What I really was
28 asking was the advantage or disadvantage of announcing
29 the program ahead of time.

30 MR. TAYLOR: That is one point on which



and from some issues, have there not, in other countries? My understanding is they have proved to be not very effective or not very successful. I think I can say that the idea of an index bond has been mentioned in the course of discussion with the Government on a number of occasions to my knowledge, in the last decade, but I can say it has never been seriously considered in Canada.

COMMISSIONER BROWN: I should like to go on a little bit to the method of issue and get your opinion of the pros and cons of the Government announcing well in advance a schedule of their prospective borrowings over a period of time.

MR. TAYLOR: The Minister of Finance, in recent years, has always included a few paragraphs in his Budget Speech regarding the cash requirements, and has usually put out a table showing the major items of these requirements and also the maturing issues during the coming year. There have been occasions when the Minister of Finance has announced a bond issue, made a statement that he thinks that over the next six months we will require a certain amount of additional net new cash, and that sort of thing. However, the Government has not in practice made regular, periodic statements as to its future borrowing plans.

COMMISSIONER BROWN: What I really was asking was the advantage or disadvantage of announcing the program ahead of time.

MR. TAYLOR: That is one point on which



1 I should not speak as though I were the govern-
2 ment.

3 COMMISSIONER BROWN: I just wanted to
4 make sure you had not misunderstood the question.
5 Would you care now to discuss the question of tap
6 issues?

7 MR. TAYLOR: Well, I can just make
8 one point there. We have never had, apart from
9 savings bonds, a tap issue in the sense that other
10 countries have them. The nearest approach to a tap
11 issue, the only one I have any personal knowledge of,
12 was our long-term issue in January 1953,
13 when we contracted a sale of \$100 million worth of
14 long-term bonds to the Bank of Canada. The coupon
15 rate and the length of terms, and so on, were announced,
16 and the Bank of Canada intimated they were prepared
17 to sell these on request. They fixed, of course,
18 selling their/price from time to time, and bank acquired the
19 whole amount over a period of six to eight months. They
20 did not take the whole \$100 million from us right
21 away. My recollection is that they took \$50 million
22 on the first day and then, as their sales developed,
23 they picked up the remaining \$50 million. Those were
24 the 75 -78's issued in January, 1953. They were 25-
25 year bonds, callable in 22 years. I should comment
26 that the general idea was largely worked out by
27 Dr. Clark just before his sudden death, and I was
28 not very familiar with the background at that
29 particular time, but I know one of the factors was
30 at that time the longest outstanding issue was the 66's,



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1 callable in 1961. There was a good deal of feeling on
2 part of
3 the/ both the Department of Finance and our colleagues
4 in the Bank of Canada that it was in the interests
5 of the provinces, for example, to establish sort of
6 a bench market for a long term issue. At that time
7 domestic
8 the longest term/issue outstanding was a 13-year
9 bond, callable in eight years. For that reason
10 they decided to put out this long-term bond issue,
11 this 25-year bond issue.

12 I understand, and I am just speaking
13 from what I was told later on, that there was a
14 feeling in the market that a 25-year issue at that
15 time was extremely uncertain, that no one quite knew
16 what the reaction would be, and there had been some
17 sort of informal sounding out of the market by life
18 insurance companies, and so on, and the decision
19 was to handle it on what was termed to be a unique
20 basis of selling the issue to the Bank of Canada
21 in instalments and to have the Bank of Canada feed
22 them into the market. That is the nearest approach
23 to a tap issue we have ever had.

24 I understand that in Great Britain,
25 for example, this is almost a standard way of issuing
26 long-term government bonds, to sell en bloc to the
27 Bank of England, and the Bank of England feeds
28 them out to the market for the next several months.

29 COMMISSIONER MACKINTOSH: On this
30 Canadian issue, was substantially the whole issue
fed out to the market successfully?

MR. TAYLOR: A very large part was sold



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1 out. A certain amount was acquired by the
2 Unemployment Insurance Fund, for it was a very
3 attractive rate of interest at that time. The Bank
4 of Canada, as you know, holds, or normally holds, a
5 certain fraction of all outstanding issues. I
6 would think that a fair amount, the largest portion,
7 in fact, went to the general public.

8 COMMISSIONER BROWN: Why was it not
9 tried again?

10 MR. TAYLOR: It is difficult to say
11 why, whether the market did not particularly like
12 it or whether it was such a new, long-term issue,
13 but \$100 million was a fair sized issue in 1953,
14 although it was not really a large issue and it
15 did not move out very rapidly at that time.



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4 COMMISSIONER BROWN: I would like to
5 ask one or two questions about treasury bill auctions.
6 It has been suggested to us that the routine might
7 be followed as is followed in certain other countries
8 of not permitting the banks to enter the treasury
9 bill auctions. Can you give us some pros and cons
10 on this?

11 MR. TAYLOR: Well, the banks in
12 Canada, of course, are to a very large extent
13 investment dealers and investment holders.
14 The Canadian chartered banks are not quite the same
15 as the banks in any other country; they combine
16 savings banks with what is commonly called
17 commercial banks, but the banks have always been
18 regarded, not only on treasury bills, but in other
19 large bond issues, as being in the class of being
20 investment dealers in the sense that the banks can
21 subscribe to
22 ordinary bond issues as well as treasury bills.

23 COMMISSIONER BROWN: It has also been
24 suggested to us that the Bank of Canada should remain
25 neutral on treasury bill auctions, and there are two
26 variations on this; one is neutral in amount in the
27 sense that they should only apply at the tender for
28 an amount not in excess of what they have for
29 redemption of the maturing bill or, alternatively,
30 that they should be neutral in price in the sense of



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1 rolling over the bills that they have at the average
2 price paid by the market for the remaining bills.
3 It is not fair to ask has this been considered,
4 I suppose, but would you care to comment on this
5 suggestion?

6 MR. TAYLOR: Well, the Bank of Canada
7 when they come before you will give you an idea of
8 what their practice is and their reasons for their
9 practice.

10 COMMISSIONER BROWN: I didn't get
11 very far on that! Let us ask another question in
12 connection with the banks' participation, now. Have
13 you an opinion as to the extent to which the 15 per
14 cent secondary reserve ratio of the banks, parti-
15 cularly the 7 per cent in addition to the cash
16 reserve ratio, whether it does have a direct effect
17 on the treasury bill market.

18 MR. TAYLOR: Well, I suppose it must
19 have some. The so-called liquidity ratio is cash,
20 treasury bills and day-to-day loans,

21 and the 15 per cent liquidity
22 ratio was arrived at as a matter of agreement between
23 the Bankers' Association and the Bank of Canada, and
24 when the Banks agree that the assets will be in those
25 three areas, that naturally has some effect upon
26 their activity in acquiring or disposing of treasury
27 bills.

28 COMMISSIONER MACKINTOSH: Do you recall
29 historically whether this agreement on the 15 per
30 cent ratio increased the holdings of the banks above



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three areas, that naturally has some effect upon
their activity in repurchasing or disposing of treasury
bills.

COMMISSIONER MACKINTOSH: Do you recall
historically whether this agreement on the 15 per
cent increased the holdings of the banks above



1 what they had been accustomed to hold and obviously
2 made it more -- did it increase it?

3 MR. TAYLOR: This is a matter which the
4 Bank of Canada will give you the figures on, but my
5 recollection is that when the agreement was reached
6 the 15 per cent agreement did not go into effect
7 the next morning, it was to be worked in within the
8 next six months, which did mean that the banks in
9 that six months period undoubtedly did acquire a
10 higher amount of treasury bills.

11 COMMISSIONER MACKINTOSH: Thank you.

12 COMMISSIONER BROWN: In the actual
13 distribution of the new issue by the Bank of Canada,
14 does your Department enter into discussions of the
15 dealer list at all?

16 MR. TAYLOR: Yes. Perhaps I can
17 explain how we handle this. The details of bond
18 issues are normally announced Monday morning at nine
19 o'clock, and the books are closed customarily at six
20 o'clock on Tuesday. In the offerings there is no
21 rigid formula, but normally the primary dealers are
22 offered X per cent of the total issue as firm offers,
23 and in recent years we have limited their further
24 subscriptions to being not more than twice the amount
25 of the firm offer made to them.

26 COMMISSIONER BROWN: I think it is the
27 firm bonds they accept, isn't it?

28

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COMMISSIONER MACLEOD: Thank you.

COMMISSIONER BROWN: In the case

distribution of the new issue by the Bank of Canada,

does your department enter into discussions of the

dealer list as well?

COMMISSIONER BROWN: Yes.

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issues are normally announced Monday morning at nine

o'clock, and the books are closed usually at six

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COMMISSIONER BROWN: I think it is the

time bonds they accept, is it?



1 MR. TAYLOR: Yes, the firm bonds they
2 accept. The books are closed at six
3 o'clock and during the later afternoon I am in
4 continuous touch with the Bank of Canada, who are
5 the administrators of the operation, and I am informed
6 as to how the flow is coming in and developing.
7 It takes them about an hour or an hour and a quarter
8 after six o'clock to wind everything up, and then
9 usually I go personally, accompanied by Mr. Hockin,
10 or occasionally if it looks like a very simple and
11 very clean sort of operation, I may not go,
12 but the Department of Finance does go over there
13 and go over all the lists and agreement is reached
14 as to how the allotment is to be made.

15 Now, if it is a single issue the
16 matter usually is quite simple. For example, we
17 just agree that we are going to allot 42.6 or 52%
18 of each subscribed amount. If, as

19 in recent years, there are two or more
20 packages being offered, then we have to reach a
21 decision as to how much we will put into the shorter
22 end and how much into the mid or long-term end. Having
23 gone over all this in detail and reached a conclusion,
24 we then consult with our Minister

25 and the Minister then makes the decision
26 as to how to allot the bonds as between the two
27 separate issues in that particular package. So,
28 the Department of Finance does actively participate
29 in the allotment of the issue and the Minister makes
30 the final decision.



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of each uncontracted amount.

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decision as to how much we will put into the offering

and how much into the mid or long term end, having

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in the allotment of the issue and the Minister makes



1 COMMISSIONER BROWN: The decision of
2 the original allocation among the primary distributors
3 is made by the Bank of Canada or does the Department
4 go into that discussion too.

5 MR. TAYLOR: The mechanics are handled
6 by the Bank of Canada. From time to time we do
7 go over the list and from time to time, of course,
8 the Minister gets complaints from Mr. X that his
9 allotment isn't big enough and he naturally invites
10 the Bank of Canada to explain why Mr. X is only
11 given $1\frac{1}{2}$ per cent or $2\frac{1}{2}$ per cent instead of being
12 given $4\frac{1}{2}$ per cent of the offer, and so on, but that
13 is all handled by the Bank of Canada, that is part
14 of the administrative management.

15 COMMISSIONER BROWN: Those are all
16 the questions I have, Mr. Chairman.

17 COMMISSIONER LEMAN: Mr. Taylor, to
18 come back a bit to something you spoke about earlier
19 this morning, you were talking about the government
20 accounts, and there have been representations made
21 to the Commission that it would be helpful for
22 certain purposes if completed information about the
23 operations of these accounts were available quickly.
24 Would you comment on the objections or the advantages
25 of this proposal?

26 MR. TAYLOR: Well, the Bank of Canada
27 publishes every week the total holdings in govern-
28 ment accounts, split as between treasury bills and
29 securities. The comptroller -- I think that your
30 monthly report does break down the content to some



COMMISSIONER LEMMON: The proposal which

I am referring to is one whereby the details would

be much greater; it would show up the materialities,

and what the operations are in the various institutions,

et cetera, so that the market could have more information

about the operations of the securities. Are there

any objections from the point of view of the

Department to that much more disclosure?

MR. TAYLOR: I don't suppose it is

proper for me to ask you a question, that should we

require the chartered banks and the life insurance

companies to disclose the details of their portfolios.

The life insurance companies report annually and

the details are printed about a year later in the

annual report of the Department of Insurance. We

published in our public accounts, a good deal of

additional information as to what is held, but I

have some doubts as to the propriety of the value

of disclosing say weekly the exact holdings of

each portfolio by the various associates.

COMMISSIONER LEMMON: Now have some

doubts as to the value of it from the point of view

of the market or from your point of view? Are there

objections from your point of view? Do you think

that would hamper the operation of these securities?



1 daily.

2 COMMISSIONER LEMAN: Well, somewhat
3 related to this question was the comments by the
4 Investment Dealers Association to the effect that
5 they preferred to be told by the Bank of Canada
6 whether it is operating as principal or agents for
7 one of the investment accounts. Do you have any
8 views on whether it is more appropriate for the
9 bank to do this or not as your agent?

10 MR. TAYLOR: I understand that the
11 Bank of Canada does say that they are buying these
12 either for their own portfolio or for an account,
13 but they do not say what account.

14 COMMISSIONER LEMAN: Does it have any
15 importance, in your view, that they do so?

16 MR. TAYLOR: Well, I don't think it is
17 in the government's interest to be disclosing from
18 day to day or hour to hour exactly what it is doing.

19 COMMISSIONER LEMAN: The Bank doesn't
20 make this kind of a disclosure and the market may
21 make guesses about the statistics I was earlier
22 referring to?

23 MR. TAYLOR: Yes. We have to make a
24 lot of guesses, too, you know.

25 COMMISSIONER BROWN: Why not? How
26 would this make it more difficult for the govern-
27 ment to operate if these things were disclosed monthly?

28 MR. TAYLOR: Disclosed monthly?

29 COMMISSIONER BROWN: Yes.

30 MR. TAYLOR: Well, I don't feel I can



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MR. TAYLOR: Disclosed monthly?

MR. TAYLOR: Well, I don't feel I can



1 make too many comments on what the government should
2 do or might do.

3 COMMISSIONER BROWN: You did say that
4 it would make it more difficult for the government
5 to operate, and I was asking how and why.

6 MR. TAYLOR: It produces a lot of
7 comment in the press and a lot of guessing as to
8 why you are doing this, and so on, and there are
9 a great many other organizations that are quite
10 active in the market that don't disclose
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1 COMMISSIONER BROWN: I understand this is
2 disclosed in the United States.

3 MR. TAYLOR: I am not very sure how they do
4 that. Perhaps Mr. Hockin knows.

5 MR. HOCKIN: I think they disclose it at
6 reasonable intervals, not too frequently and not closely
7 enough so that you would get any immediate market sense
8 of what was going on, on a daily basis for example; but
9 at the end of a certain interval you would have some idea
10 of what the government accounts have done.

11 MR. TAYLOR: We disclose that weekly to the
12 Bank of Canada, or rather the Bank of Canada discloses
13 weekly what the government accounts as a whole have done.

14 COMMISSIONER BROWN: But it is in a fairly
15 broad category, not in detail as is done in the United
16 States.

17 MR. TAYLOR: Yes.

18 COMMISSIONER BROWN: I was merely asking why.
19 What are these difficulties that you refer to?

20 MR. TAYLOR: It never has been done, except
21 on a few occasions a considerable time after the event;
22 and we do report in the monthly statement, but just in
23 the securities investment account and in the purchase
24 account.

25 COMMISSIONER BROWN: This again is not in
26 detail.

27 COMMISSIONER GIBSON: Not by maturities.

28 MR. TAYLOR: No, not by maturities.

29 COMMISSIONER BROWN: I was asking, why not?

30 MR. TAYLOR: I was going to very rudely say,



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MR. TAYLOR: I was going to very fully say,



1 why?

2 COMMISSIONER BROWN: I asked the question
3 first.

4 MR. TAYLOR: If the commission makes a
5 recommendation along this line, I am sure the govern-
6 ment will give serious consideration to it.

7 COMMISSIONER LEMAN: Mr. Taylor, may I pick
8 up my questions again. You did say earlier that you
9 got a lot of free advice from the market about debt
10 management. The idea came out, even more formally on
11 this point, that they very generously said they would
12 like to give you more free advice in the sense that
13 they suggested formation of a formal advisory committee
14 on debt management, to which they would appoint some
15 representatives, or alternatively to which the depart-
16 ment itself would appoint representatives, with the
17 dealers' approval. Did you see some disadvantages in
18 such a formal committee?

19 MR. TAYLOR: All I can say is that the invest-
20 ment dealers and other participants in the investment
21 market have made representations to Ministers at various
22 times over the past ten years -- I can speak only of the
23 past ten years because that is as long as I have been a
24 Deputy Minister -- and in the past the government has
25 not decided to appoint a formal advisory committee.

26 COMMISSIONER LEMAN: The objections would be
27 in the realm of practicability, or do you think it might
28 cause some real difficulty?

29 MR. TAYLOR: Perhaps I can go a little beyond
30 my opening sentence and say this, that in Canada we



I asked the question

1947

MR. TAYLOR: If the commission makes a

recommendation along that line, I am sure the govern-

ment will give serious consideration to it.

COMMISSIONER LEAMAN: Mr. Taylor, may I pick

up my questions again. You did say earlier that you

got a lot of free advice from the market about debt

management. The idea came out, even more formally on

this point, that they very generously said they would

like to give you more free advice in the sense that

they suggested formation of a formal advisory committee

on debt management, to which they would appoint some

representatives, or alternatively to which the depart-

ment itself would appoint representatives, with the

dealers' approval. Did you see some disadvantages in

such a formal committee?

MR. TAYLOR: All I can say is that the invest-

ment dealers and other participants in the investment

market have made representations to Ministers at various

times over the past ten years -- I can speak only of the

past ten years because that is as long as I have been a

Deputy Minister -- and in the past the government has

not decided to appoint a formal advisory committee.

COMMISSIONER LEAMAN: The objections would be

in the realm of practicability, or do you think it might

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MR. TAYLOR: Perhaps I can go a little beyond

opening sentence and say this, that in Canada we



1 have regional problems. Once an advisory committee were
2 set up there would be great political pressures -- and
3 I again use the word "political" in the non-partisan
4 sense -- that we should have at least one representative
5 from each province. Then there would be the question of
6 whether we should include the chartered banks and the
7 life insurance companies.

8 In the United States, as I recall it, there are
9 three advisory groups. Am I right in that, Mr. Hockin?

10 MR. HOCKIN: I think so.

11 MR. TAYLOR: They have the banks -- and of
12 course, they have 15,000 banks there; they have the
13 life insurance companies; and they have the investment
14 dealers, or what they call the investment bankers.

15 I understand the federal government meets
16 with these groups from time to time, individually and
17 occasionally collectively.

18 In Canada there would be some problems about
19 the size of the committee and its geographic represen-
20 tation. On the other hand, as I said before, we do
21 keep a fairly close touch with the market. Mr. Hockin
22 is under instructions to do a certain amount of visiting;
23 he spends a certain amount of time in Toronto and
24 Montreal and occasionally visits other areas where there
25 are financial dealers, and meets and talks with them.
26 I do some visiting, rather more occasionally.

27 COMMISSIONER LEMAN: Might there also be
28 difficulty in the realm of conflict of interest between
29 the role of investment dealers on such a committee and
30 their role as investment dealers?



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COMMISSIONER LAMONT: Might there also be difficulty in the realm of conflict of interest between the role of investment bankers on such a committee and



1 MR. TAYLOR: Yes. I would say this, that when
2 the investment dealers brought this suggestion before us
3 there was an intimation from other investment dealers
4 who thought they were too small to be appointed to the
5 committee; and, while the members of the committee would
6 not have received precise secret information,
7 they would be better informed as to what is likely to
8 happen. Therefore, they would have an advantage over
9 the dealer that was not on the committee.

10 That was one point that was raised with me
11 personally by members who had heard about the proposed
12 committee and were quite sure that they were not big
13 enough to be appointed to it, and therefore they did not
14 want their competitors to have an advantage. That, I
15 may say, is a relatively small point.

16 COMMISSIONER LEMAN: The implications of their
17 representations to you were that they could solve this
18 by appointing the members themselves, as an association.
19 That might solve some of the problems of regional
20 representation, in that it would be their responsibility.

21 MR. TAYLOR: Yes.

22 COMMISSIONER LEMAN: Mr. Taylor, there is in
23 your brief, and following from this discussion about
24 debt management, evidence that your department has to
25 look after quite a number of important tasks. There is,
26 of course, nothing in your brief about the composition
27 of the department and the staff available to it. Could
28 you give us some information as to what is the total
29 staff of your department, and break down those numbers
30 into broad divisions relative to the main tasks they



MR. TAYLOR: Yes, I would say this, that when the investment dealers brought this suggestion before us there was an intimation from other investment dealers who thought they were too small to be appointed to the committee; and, while the members of the committee would not have received precise secret information, they would be better informed as to what is likely to happen. Therefore, they would have an advantage over the dealer that was not on the committee.

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COMMISSIONER LAMMAN: Mr. Taylor, there is in your brief, and following from this discussion about debt management, evidence that your department has to look after quite a number of important tasks. There is, of course, pointing to your brief about the composition of the department and the staff available to it. Could you give us some information as to what is the total

staff of your department, and how many of them are



1 perform.

2 MR. TAYLOR: If the Commission requires, I
3 would be very happy to file a document with them. I
4 can answer the question now in very general terms.

5 In the Department of Finance proper there are
6 about 500 people. The Comptroller of the Treasury is
7 an officer of the Department of Finance, but under the
8 statute he has the status of a Deputy Minister in
9 the personnel management of his group. He has a staff
10 of about 4,500 persons, located from coast to coast,
11 in England, Europe and so on.

12 Of what I might call the Department of Finance
13 proper, the largest single group, apart from the
14 Comptroller of the Treasury, is the Treasury Board,
15 of which Mr. Steele is Secretary and Administrator.
16 He has a staff of about 115.

17 Mr. Plumptre's segment of the department
18 covers international affairs, financial affairs,
19 economic analyses, and so on, with a staff of about
20 20.

21 MR. PLUMPTRE: Eighteen , including
22 secretaries.

23 MR. TAYLOR: Then we have a division on
24 economic industries, commercial policies, tariffs and
25 that sort of thing, of which Mr. Reisman is
26 Assistant Deputy Minister. He has a staff of 26.
27 Then there is the taxation division of which Mr. Isbister
28 is in charge, as Assistant Deputy Minister. He has a
29 staff of about a dozen persons. He, of course, works
30 very closely with the National Revenue people, who



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12 proper, the largest single group, apart from the

13 Comptroller of the Treasury, is the Treasury Board,

14 of which Mr. Steele is Secretary and Administrator.

15 He has a staff of about 15.

16 Mr. Plimpton's segment of the department

17 covers international affairs, financial affairs,

18 economic analyses, and so on, with a staff of about

19 20.

20 MR. PLIMPTON: Ransom, including

21 MR. TAYLOR: Then we have a division on

22 economic industries, commercial policies, tariffs and

23 that sort of thing, of which Mr. Ransom is

24 Assistant Deputy Minister. He has a staff of 26.

25 Then there is the taxation division of which Mr. Tashler

26 is in charge, which includes, of course, works

27 very closely with the National Revenue people, who



1 provide him with much of the purely technical operations
2 in the taxation division.

3 Then we have a small number, as I explained
4 in my paper, of operating branches. We have a staff
5 in the superannuation branch of about 180 people who
6 handle all the superannuation pension fund operations.
7 There is a group on the administration of government
8 guaranteed loans, composed of a staff of about 18 or
9 20. Then I have my general administration, central
10 registry, personnel office, with a staff of about 60.

11 I have not included in this list the Royal
12 Canadian Mint, which reports directly to me. The Master
13 of the Mint has a staff of about 260.

14 There is of course, the Tariff Board, which is
15 not in the Department of Finance but which reports to
16 the Minister of Finance. It has a staff of about 30
17 persons.

18 The Inspector General of banks has a staff of
19 2, and he does a very good job.

20 COMMISSIONER LEMAN: I am sure it would be
21 interesting to us if you could at your convenience file
22 something with the commission giving us a rough break-
23 down of the main divisions you have mentioned and the
24 number of staff in each, indicating if you could the
25 number of chiefs and the number of Indians.

26 MR. TAYLOR: I have a very detailed organi-
27 zation chart in graph form, which is about four feet by
28 six feet.

29 COMMISSIONER LEMAN: I don't think we want to
30 go into all the detail of who is who and so on; if you

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1 would just give us an idea of the relative weight of the
2 tasks you have and the staff to handle them.

3 MR. TAYLOR: I should explain that the
4 Superintendent of Insurance is a Deputy Minister who
5 reports directly to the Minister of Finance. While he
6 is a personal friend of mine and we have chats from time
7 to time, he is a separate government department entirely.

8 COMMISSIONER MACINTOSH: Speaking entirely on
9 a factual basis, the Glassco Commission do not report
10 that your debt management division is overstaffed. Is
11 that correct?

12 MR. TAYLOR: We have none, but we all work
13 on it.

14 COMMISSIONER GIBSON: Mr. Chairman, before we
15 leave this picture of debt management, I wonder if you
16 would comment a little more on the considerations
17 leading to the various decisions on policies at times.
18 You did not really answer my questions about what
19 consideration was given to economic stabilization, and
20 the differences in cost.

21 I wonder if you would take a look at the main
22 development in recent times. There was a lengthening of
23 debt in 1954, a very marked lengthening in 1958, 1959,
24 and in 1960 you put out these convertible bonds, the
25 effect of which was to add a bit or hold it where
26 it was; and since 1961, there has been some tendency
toward a deliberate shortening of the debt.

27 Could you comment on these periods, as to
28 what the main motivations were. From our point of view
29 it is very important to see how debt managements fits
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into monetary policy, and what factors goes into making



1 particular decisions as you go along.

2 MR. TAYLOR: As I tried to indicate, we do
3 regard debt management as being a very real integral
4 part of the overall financial and economic policy, and
5 the weight you attach to this aspect or that aspect of
6 bond issues or other forms of debt management will vary
7 a good deal from time to time.

8 Now, you asked me why we have done this or
9 that at a particular time. I find it rather difficult
10 to explain why we did it. I can say what we did.

11 COMMISSIONER GIBSON: In 1954, there was an
12 effort to lengthen the debt, was there not? This was
13 done when the market was fairly favourable.

14 MR. TAYLOR: At that time, as I recall it,
15 we got pretty short. As I mentioned a few moments ago,
16 at the end of 1952-53, we had no bonds outstanding of
17 more than 8 to 13 years. We started then to open up
18 the longer range market.

19 In my informal discussions with some of the
20 provincial deputy treasurers they did press very
21 strongly for us to do a little more leading in the long
22 term market so as to create a market which they could
23 move into. There were periods when the average length
24 of our maturities had shortened up substantially, and
25 the market atmosphere was such as to make readily
26 acceptable substantial issues of long term bonds.

27 I do not need to go into the 1958 series.
28 That was discussed at some length in Hansard speeches
29 and so on by the Minister of Finance.

30 COMMISSIONER GIBSON: The motivations there



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2 policy.

3 MR. TAYLOR: It was partly that. It developed
4 from a technical problem. We were coming up against
5 some very large maturities in the very near future, and
6 at that time we had not done much in the way of
7 developing what we might call advance refunding, which
8 some people don't like.

9 COMMISSIONER GIBSON: And more recently the
10 tendency has been towards shortening. You said one of
11 the motivations there was to facilitate the provinces
12 and municipalities in their financing. Is there anything
13 else in this shortening? Do I understand it is to
14 facilitate the expansion of monetary policies?

15 MR. TAYLOR: That was one situation; but as
16 the Minister of Finance has explained on a number of
17 occasions, he wanted to be sure the longer term market
18 was adequately open to the provinces and municipalities.

19 COMMISSIONER GIBSON: You mean by leaving more
20 room in it?

21 MR. TAYLOR: Yes.

22 COMMISSIONER GIBSON: I think early in 1954
23 you were sort of trying out the ground before they went
24 in. I believe that is roughly the way you described it?

25 MR. TAYLOR: Yes.

26 COMMISSIONER GIBSON: They did not want you
27 to stay there too long.

28 MR. TAYLOR: Of course in the last five or
29 six years we have always had a substantial amount of
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1 COMMISSIONER GIBSON: But you would not be
2 prepared to weigh these various motivations from the
3 standpoint of the Department of Finance.

4 MR. TAYLOR: We don't make our decisions on
5 what might be called a mathematical appraisal. Perhaps
6 some of my friends think we should do that. But on all
7 these occasions when we look at debt management we have
8 regard to the dozen or more factors that play a role in
9 the area.

10 I should also state -- and perhaps it is
11 superfluous -- that as far as I am concerned debt
12 management is only one, and not an enormous part, of
13 my activities. We have budgetary problems and a great
14 many other problems to deal with.

15 COMMISSIONER GIBSON: You don't think there
16 is any very strong difference in your thinking as
17 between the central bank and the Department of Finance
18 on this question. In other words, one would expect
19 the central bank to be interested in debt management
20 from the standpoint of monetary policy and economic
21 stabilization, and one would expect the Department of
22 Finance to be interested in it from those points of
23 view and also from the standpoint of economizing national
24 debt, developing a market for Canadian bonds, and so
25 forth. Is there no distinction of this kind?

26 MR. TAYLOR: The Bank of Canada top management
27 are fully aware of all problems and I think we are
28 pretty well informed of their policy problems and are
29 continuously in contact with the Bank of Canada, which
30 provides a high degree of mutual understanding. As I



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Nethercut & Young

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1 COMMISSIONER BROWN: Still discussing
2 this same general area, in 1954 you lengthened the
3 debt and in 1956 you called debt ahead of time.

4 MR. TAYLOR: Yes.

5 COMMISSIONER BROWN: There was a $3\frac{1}{4}$
6 per cent issue in 1966 which you called in 1956, and
7 was there not a 1959 issue that you called in 1956
8 also?

9 MR. TAYLOR: I am afraid I have not
10 all the facts before me here, but we did do some
11 calling.

12 COMMISSIONER BROWN: You called some
13 $3\frac{1}{4}$ in 1956, and I think there were some 59's. This
14 was a positive shortening of debt ahead of require-
15 ments. Can you tell us what led to this?

16 MR. TAYLOR: A variety of factors.
17 One element was that the government had a substantial
18 cash surplus at that time, and in that way the
19 callable bonds were called.

20 COMMISSIONER BROWN: In 1956?

21 MR. TAYLOR: In regard to these
22 questions on these particular bonds I have not been
23 able to bring my entire library with me. I am
24 afraid I have not brought the ---

25 COMMISSIONER BROWN: I am going by
26 memory, but it seems to me there was a deficit in
27 1955 and a deficit in 1956. It was not until 1957
28 that there was a surplus -- that would be the fiscal
29 year ending March 31, 1957.

30 MR. TAYLOR: Yes, there was a surplus



Still discussing.

this same general area, in 1954 you lengthened the debt and in 1956 you called debt ahead of time.

MR. TAYLOR: Yes.

COMMISSIONER BROWN: There was a 3 1/2 per cent issue in 1955 which you called in 1956, and was there not a 1959 issue that you called in 1956 also?

MR. TAYLOR: I am afraid I have not.

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MR. TAYLOR: Yes, there was a surplus



1 at March 31, 1957, and a small deficit at March 31,
2 1958.

3 COMMISSIONER BROWN: It is in the table
4 in Appendix 1 which immediately follows page 20 of
5 your brief.

6 MR. TAYLOR: Those are budgetaries,
7 as I recall them, rather than cash. I have not
8 got the monthly figures here, but we were running
9 fairly substantial cash deposits. We publish, of
10 course, weekly our bank deposits. These are our
11 year-end figures here which do not mean very much,
12 but I can have what our cash position was at that
13 time looked up.

14 COMMISSIONER BROWN: There was a change
15 of policy in 1954. You lengthened debt in 1954,
16 and in 1956 you shortened it, and you lengthened
17 debt again in 1958.

18 MR. TAYLOR: 1954 was a period of
19 flattening out of economic growth. Is not that right,
20 Mr. Hockin?

21 MR. HOCKIN: Yes.

22 MR. TAYLOR: And 1956, of course, was
23 a year of extremely active expansion and very high
24 industrial investment. In other words, to
25 the extent that the pattern of debt management is
26 being fitted into what you might call the business
27 cycle it would appropriately vary from the slacker
28 periods to the more intense periods. 1958, of course,
29 was the year of the big conversion loan, and that
30 had a variety of elements



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periods to the more intense periods. 1957, of course,

was the year of the big conversion loan, and that



1 which were discussed in some detail at that time.

2 COMMISSIONER BROWN: I am just a little
3 confused here. 1956 was a year of expansion and
4 would not have been an appropriate year to lengthen
5 debt in furtherance of monetary policy.

6 MR. TAYLOR: It has a role along with
7 the policy of the Bank of Canada in regard to
8 straight monetary policy.

9 COMMISSIONER BROWN: But that was the
10 year you shortened debt. I am trying to find
11 out why you lengthened debt in 1954, and shortened
12 it in 1956.

13 MR. TAYLOR: As I said earlier, the
14 decisions are made by the government.

15 THE CHAIRMAN: I think this is an
16 appropriate time at which to adjourn for lunch.
17 We shall resume at 2.15 p.m.

18 --- Luncheon Adjournment.
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discussed in some detail at that time.

COMMISSIONER BROWN: I am just a little

confused here. 1956 was a year of expansion and

would not have been an appropriate year to lengthen

debt in furtherance of monetary policy.

MR. TAYLOR: It has a role along with

the policy of the Bank of Canada in regard to

COMMISSIONER BROWN: But that was the

year you shortened debt. I am trying to find

out why you lengthened debt in 1954, and shortened

it in 1956.

MR. TAYLOR: As I said earlier, the

decisions are made by the government.

THE CHAIRMAN: I think this is an

appropriate time at which to adjourn for lunch.

We shall resume at 2.15 p.m.

--- Lunch Adjournment.



1 --- Upon resuming at 2.15 p.m.

2
3 THE CHAIRMAN: Gentlemen, we will now
4 resume.

5 MR. TAYLOR: May I make one correction
6 to a statement I made. I said that in 1953 the
7 longest outstanding bonds were the 66's. I forgot
8 that there was the 2 3/4 per cent issue of 1968
9 which was issued in 1950.

10 COMMISSIONER BROWN: Plus the
11 perpetuials.

12 MR. TAYLOR: Oh yes, but they were
13 issued a long time ago.

14 COMMISSIONER MACKINTOSH: May I ask
15 some questions about fiscal policy? I think you
16 indicated in your first paper that you are now
17 trying to develop 3-year estimates of expenditures,
18 and that there is hope of extending that further.
19 What are the advantages that are seen in this
20 longer period for budgeting expenditures?

21 MR. TAYLOR: Could I ask Mr. Steele
22 to answer you? He is in charge of that section.

23 MR. STEELE: Mr. Chairman, I suppose
24 the principal advantages would be twofold. There
25 is the sort of inward-looking one of providing as
26 far as management generally is concerned within the
27 service an opportunity to take a longer formal look
28 at its programs than is offered by the traditional
29 submission of the estimates one year ahead. This
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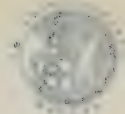


1 management of expenditures within the government service,
2 and also from the point of view of those who have
3 to live with the consequences of the projections
4 of expenditures. I would cite this as an important
5 consideration in regard to forecasting.

6 We have been keeping very close
7 to the thought that has been emerging in the United
8 Kingdom and in the United States. I am sure I do
9 not need to refer you to the Plowden report in the
10 United Kingdom which examined the implications of
11 forward forecasting in the British treasury system.
12 I would think that our aims and objectives are on all
13 fours with their findings.

14 From the point of view of the Department
15 of Finance and the Minister of Finance and, indeed,
16 the government, the important aspect of forward
17 forecasting is to provide the government of the day
18 with some indication of the future commitment effects
19 of those decisions that have already been taken,
20 and this is something that is rather obscured by the
21 year to year look at the estimates as at present.
22 So, to improve the quality of the management process,
23 and to give a better indication of the kind of
24 expenditure levels and structure we are likely
25 to have in advance of the immediate year ahead, is
26 the objective we see in developing this forecasting
27 technique.

28 COMMISSIONER MACKINTOSH: Do you think
29 this will make it possible to control or vary
30 expenditures more than under the present system, or



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1 will that make it more rigid?

2 MR. STEELE: I would think, undoubtedly,
3 it would in this sense, that so many of the commit-
4 ments that are being taken on particularly at the
5 national level these days have effects that run
6 quite a few years ahead. We know from our experience
7 in the defence expenditure area that we must take
8 this look ahead anyway to see what kind of a pattern
9 and what overall size of defence requirement
10 expenditures are emerging. There are the various
11 department requirements, and also those expenditures
12 which are now forming an important part of the federal
13 structure, the federal-provincial agreements of one
14 type or another. Being able to see how these are
15 going to grow ahead of you is a very important factor
16 through being able to anticipate the kind of
17 problem you are going to have two or three years
18 ahead while you are making up your mind about the
19 things you wish to do today.

20 COMMISSIONER MACKINTOSH: You mentioned
21 also in your paper, I think, that about only 20 per
22 cent of the budget expenditures are really flexible
23 or subject to control. Would this forward budgeting
24 help with that problem at all?

25 MR. STEELE: It might in the future,
26 but not for the present in this sense/^{that} it would provide
27 an understanding of the nature of the commitments
28 you already have and which you must meet, and that
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1 The question of whether expenditures
2 are controllable or -- to use this other word which
3 I do not like too much -- uncontrollable is only one
4 of degree in time more than anything else. Of course,
5 you can change these patterns by changes in policy,
6 but your ability to manage the expenditures in any
7 one year is certainly circumscribed by the fixed
8 nature of the commitments you have.

9 COMMISSIONER MACKINTOSH: In budget
10 work now is considerable use made of the national
11 income type of government expenditure account?
12 Is the whole thing meshed together in advance
13 in estimates, or is this done only after the fact?

14 MR. TAYLOR: Well, the national
15 accounts technically are produced by the Dominion
16 Bureau of Statistics. We take a great deal of
17 interest in them, and we do our own, what you might
18 call, intelligent or reasonably intelligent guess-
19 work as to what the next quarter or the next year
20 is going to be like. I could not say that in making
21 the precise budgetary calculations that we definitely
22 interlock them in the forecast on a national
23 accounts basis of national objectives.

24 MR. STEELE: May I just supplement that?

25 MR. TAYLOR: Yes.

26 MR. STEELE: As you will know, certain
27 aspects of the budgetary forecasts of expenditures
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4 in with the national accounts.

5 COMMISSIONER MACKINTOSH: You do not
6 at the time of setting up the budget in its various
7 tentative forms turn this into government expenditures
8 on goods and services?

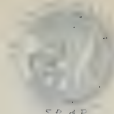
9 MR. STEELE: We are not in the position
10 of being able to do so now.

11 MR. TAYLOR: Mr. Hockin, you do a
12 good deal of looking at this sort of thing. Have
13 you any comments?

14 MR. HOCKIN: Well, the use of the
15 interpretation of the government accounts so that
16 it meshes in with the national accounts has really
17 been developed in quite a recent period. The
18 historical basis upon which one might make fore-
19 casts is really just now becoming available to us,
20 so that this technique of forecasting the budget
21 position on a national accounts basis -- and certainly
22 on a quarterly basis which is what would be particularly
23 important to us -- is just now becoming available to
24 us, and we hope to make use of this, but up to now
25 we have not had the tools to do it.

26 COMMISSIONER MACKINTOSH: You do in
27 your budget work, however, take account of the
28 cash deficit or surplus, and not simply the budgetary
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1 speeches he always has both. Naturally, he emphasizes
2 more the budgetary position, but he does refer to
3 what the British call the below-the-line
4 items, and in the past decade he has not
5 been precise in forecasting the details of
6 the cash requirements, but he does mention what
7 he expects Central Mortgage and Housing will be
8 borrowing, and what Canadian National Railways will
9 be borrowing and what might be the requirements of
10 other major items, and then he comes up with a
11 general summary.

12 COMMISSIONER MACKINTOSH: We have
13 had a suggestion that during periods when it may
14 be either necessary or desirable to run a fairly
15 large deficit there will be a clearer public under-
16 standing if there were some separation between
17 capital and current spending. Now, this also
18 works the other way. When that has been done
19 governments have been accused of varying their current
20 deficit with some juggling of capital accounts. Aside
21 from the question of whether it would be a proper
22 policy for a government or not, are there any
23 possibilities in this?

24 MR. TAYLOR: In the estimates that
25 are tabled in the House we insert in a little folder
26 in the back a large table showing the various classes
27 of expenditures, and that includes construction,
28 acquisition of machinery and equipment -- do you
29 wish to elaborate on that, Mr. Steele?

30 MR. STEELE: Well, perhaps I should say



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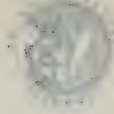
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2 amount of interest -- the Glassco Commission
3 recommendations, for example, on our financial
4 management have pointed to this aspect of the matter,
5 and it was suggested, indeed, that the estimates
6 should be reshaped and placed on some basis where
7 the capital would be shown below the line, or on a
8 basis where you only take into account in the year
9 in question the depreciation factor on capital
10 investment. I think you put your finger on it
11 when you said there are pros and cons in this game.
12 We have lived so long with the cash system that the
13 structure of the whole public accounts and the
14 estimates is built on this basis, and it will re-
15 quire quite a bit of study. However, we can see
16 merit in it from the viewpoint of understanding the
17 government presentations apart from anything else.

18 COMMISSIONER MACKINTOSH: I may be wrong,
19 but it seems to me that for a time after Confederation
20 the accounts were divided into capital accounts and
21 current accounts. This was usually an area of attack
22 on the Minister of Finance in that what was represented
23 as capital was not all capital. I am not sure of this,
24 but I think there was a change at some time.

25 MR. BALLS: Mr. Chairman, I think
26 Dr. Mackintosh is quite correct, that for many years
27 there was, in effect, a double budget in Canada, and
28 the Minister of Finance would announce annually his
29 income and out-go on current account, and almost
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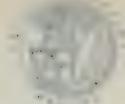


Nethercut & Young

- 7351 -

Toronto, Ontario

1 to achieve a surplus, and then in the next breath
2 he would announce what his capital expenditures had
3 been, what the capital revenues had been, and the net capital
4 deficit and then indicate the overall requirement
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1 I think that this was the case up until
2 approximately 1920, and I believe that since that date
3 there has been essentially an overall budget produced
4 each year, I would, however, add the qualification that
5 the financial requirements for loans and advances have
6 been excluded from the budget proper and to this extent you
7 have in a sense some modification towards the capital
8 budget concept.

9 COMMISSIONER MACKINTOSH: It is both in your
10 paper and elsewhere hard to find much evidence of scope
11 for varying government expenditures in a stabilization
12 pattern. Everyone argues that the magnitude is too small
13 and the expenditures too intractable as far as annual
14 figures are concerned. What about the inherent lag
15 in decision and execution, leaving aside the question
16 of whether the magnitudes are practicable or manageable
17 and the sheer mechanical timetable of trying to adjust
18 an annual budget to business situations?

19 MR. TAYLOR: There are quite substantial
20 time lags both on the expenditure side and on the
21 revenue side. It is true, of course, that changes in
22 commodity taxes, sales, excise and so on, are normally,
23 eventually, legally established as of the night of the
24 Budget Speech, and then the revenues start flowing in
25 or start declining right away. Changes in the personal
26 income tax or the corporation income tax do have a
27 substantial element of time lag before the revenues
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1 amount of time lag too between decisions and the actual
2 outflow of funds. Is that not so, Mr. Steele?

3 MR. STEELE: Yes. Our general experience is
4 that the inability to respond in a meaningful way with
5 the general pattern of the economy is a rather dis-
6 couraging one, for you are really forced to think of
7 projects or areas of change where you can get a fairly
8 quick result from the input, and there just does not
9 happen to be too much in the general government programs
10 which quickly respond in this way, except some of the
11 techniques which have been devised in recent years by
12 way of a shared cost or shared responsibility between
13 federal and provincial authorities.

14 Generally speaking, and commenting briefly
15 on the shelf of "Public Works" idea for a moment,
16 unless you have a fair number of projects which can be
17 quickly brought on, the planning phase generally
18 puts the thing out of kilter so far as the economic
19 effect of it is concerned, and you wind up spending the
20 bulk of it after the need has gone or has been some-
21 what diminished.

22 COMMISSIONER MACKINTOSH: If you got into
23 a five-year estimate for budgeting, then your shelf
24 of public works becomes a flow and it ought to be
25 possible to slow up or expedite, and I would think the
26 only way any progress could be made with the system of
27 this kind is if you do accomplish this flow.

28 If you think of it entirely as a stock, then
29 you are always going to be caught without stock, but if
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6 MR. STEELE: We have always had to live with
7 this problem to a greater or lesser degree of
8 aggravation. In fact, the supply arrangements have never
9 hindered getting ahead/^{with} the main government program. We
10 have always been able to anticipate on an interim supply
11 basis and get approval.

12 MR. BALLS: There is another aspect of this,
13 too, Mr. Chairman, and that is/^{that} once the estimates are
14 tabled in the House, then on the basis of these tabled
15 estimates contracts may be entered into. You do not
16 have to wait for the approval of the estimates under
17 the Financial Administration Act, 1951.

18 MR. TAYLOR: But you cannot pay out cash?

19 MR. BALLS: No, you cannot pay out cash until
20 parliament has appropriated the funds. However, the
21 contracts can be entered into as soon as the estimates
22 have been tabled in the House.

23 COMMISSIONER MACKINTOSH: In one of our papers
24 which had to do with central bank action rather than
25 government action, the contrast was developed between
26 what they called the inside lag and the outside lag,
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1 had been taken, say, in your case, after the budget
2 had been passed, and the time when you actually get the
3 money flowing through. Certain lags are involved there.
4 What about the problem of this inside lag, the whole
5 process of getting not the Minister but Cabinet and all
6 the people who are advising the Cabinet in various
7 departments into any kind of a common pattern of policy
8 with the necessary decisions? Is this a discouraging
9 prospect?

10 MR. TAYLOR: I am not sure that I get pre-
11 cisely the point you have in mind. The Dominion Bureau
12 of Statistics' figures and estimates of the national rate
13 of economic growth, the national account generally, have
14 been substantially improving in the past decade but they
15 still are usually about 3 months late. For example, for
16 the third quarter of 1962, the figures came out in mid-
17 December, was it, Mr. Hockin?

18 MR. HOCKIN: Yes.

19 MR. TAYLOR: About ten weeks elapse after
20 the end of the quarter before the preliminary estimates
21 are made. Our staff in Mr. Hockin's division do give a
22 lot of attention to the weekly and monthly figures as
23 they become available, and they can progressively form
24 their own judgment as to how things are moving. We are
25 keeping in quite close contact with the parallel
26 division in the Department of Trade and Commerce, with
27 our friends in the Dominion Bureau of Statistics, and
28 with the Bank of Canada officials. They are the
29 principal ones involved.

30 We also, of course, keep in contact with the

had been taken, say, in your case, after the budget had been passed, and the time when you actually get the money flowing through. Certain lags are involved there. What about the problem of this inside lag, the whole process of getting not the Minister but Cabinet and all the people who are advising the Cabinet in various departments into any kind of a common pattern of policy with the necessary decisions? Is this a discouraging prospect?

MR. TAYLOR: I am not sure that I get precisely the point you have in mind. The Dominion Bureau of Statistics' figures and estimates of the national rate of economic growth, the national account generally, have been substantially improving in the past decade but they still are usually about 3 months late. For example, for the third quarter of 1962, the figures came out in mid-December, was it, Mr. Hookin?

MR. HOOKIN: Yes.

MR. TAYLOR: About two weeks elapse after the end of the quarter before the preliminary estimates are made. Our staff in Mr. Hookin's division do give a lot of attention to the weekly and monthly figures as they become available, and they can progressively form their own judgment as to how things are moving. We are keeping in quite close contact with the parallel division in the Department of Trade and Commerce, with our friends in the Dominion Bureau of Statistics, and with the Bank of Canada officials. They are the principal ones involved.

We also, of course, keep in contact with the



1 Department of Agriculture and other federal departments
2 which have access to figures, facts, statistics and
3 estimates of how things are going. Therefore, there is
4 a certain time lag involved.

5 The basic budgetary decisions of the broad
6 budgetary pattern are necessarily taken almost always
7 at least a month before the Budget Speech. If
8 significant changes develop in the meantime there can
9 be modifications, but in the preparation of the budget
10 the general line of policy is that the Minister and the
11 government reach decisions as to the broad pattern of
12 what the budget shall be like very early in the calendar
13 year, assuming the budget is coming down, as is the
14 normal case, in late March or early April, and then the
15 last several weeks are largely devoted to the highly
16 technical aspects of these budgetary estimates, including
17 the drafting of bills, and all that sort of thing, which
18 takes up considerable part of the time. However, as I
19 say, normally, the basic decisions on the pattern of the
20 budget are taken, not absolutely irrevocably but are
21 substantially taken four to seven weeks before the
22 actual date of the budget.

23 COMMISSIONER MACKINTOSH: So that if in the fall
24 of a year a certain view was taken, then the first
25 quarter of the following year would likely see some
26 slackening in the economy, and even if you were very
27 sure of your forecast it would probably be at least
28 June before the first effects of any policy they decided
29 upon would be felt on the expenditure side.

30 MR. TAYLOR: Yes. Both on the spending and



Department of Agriculture and other federal departments which have access to figures, facts, statistics and estimates of how things are going. Therefore, there is a certain time lag involved.

The basic budgetary decisions of the broad budgetary pattern are necessarily taken almost always at least a month before the Budget Speech. If significant changes develop in the meantime there can be modifications, but in the preparation of the budget the general line of policy is that the Minister and the government reach decisions as to the broad pattern of what the budget shall be like very early in the calendar year, assuming the budget is coming down, as is the normal case, in late March or early April, and then the last several weeks are largely devoted to the highly technical matters of line item estimates, including the drafting of bills, and all that sort of thing, which takes up considerable part of the time. However, as I say, normally, the basic decisions on the pattern of the budget are taken, not absolutely irrevocably but are substantially taken down to seven weeks before the actual date of the budget.

COMMISSIONER MACKINTOSH: So that if in the fall

of a year a certain view was taken, then the first quarter of the following year would likely see some slackening in the economy, and even if you were very sure of your forecast it would probably be at least June before the first effects of any policy they decided upon would be felt on the expenditure side.

MR. TAYLOR: Yes. Both on the spending and



1 revenue sides there is what you might call a psycholo-
2 gical effect. If, for example, you announce you are
3 going to make a certain change upward or downward in
4 corporate or personal income taxes, the actual cash
5 flow up or down will not occur until some months after
6 that, but there can be a psychological implication which
7 may have an effect on the behaviour of the economy.

8 I may say that when the Treasury Board meets
9 in the middle or late autumn to start work on the main
10 estimates for the coming year, we do submit to the
11 Treasury Board a pretty careful appraisal of how things
12 look for the coming calendar year, and it serves as
13 sort of background information for the attitude towards
14 spending programs. We not only do that but we also give
15 them a forecast of what the budgetary position will be
16 in the coming year, if there were no changes up or down
17 in the tax structure, and so on.

18 COMMISSIONER MACKINTOSH: Is this done also
19 to any extent on a regional as well as a national basis?

20 MR. TAYLOR: Not very precisely. In my
21 presentation to the Treasury Board I will review the
22 economic structure, how it has been behaving during
23 the current year and how it looks to be going. If we
24 have had a crop failure on the prairies, for instance,
25 I will weave that into my general analysis, and I may
26 say something about the unemployment situation in one
27 particular area as compared with another area, and so
28 on.

29 COMMISSIONER MACKINTOSH: On the revenue side,
30 taking into account what you have said about the



revenue side there is what you might call a psychological effect. If, for example, you announce you are going to make a certain change upward or downward in corporate or personal income taxes, the actual cash flow up or down will not occur until some months after that, but there can be a psychological implication which may have an effect on the behaviour of the economy.

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COMMISSIONER WASHINGTON: Is this done also to any extent on a regional as well as a national basis?

MR. DAVIES: Not very precisely. In my presentation to the Treasury Board I will review the economic structure, how it has been behaving during the current year and how it looks to be going. If we have had a crop failure on the prairies, for instance, I will weave that into my general analysis, and I may say something about the unemployment situation in one particular area as compared with another area, and so taking into account what you have said about the

COMMISSIONER WASHINGTON: On the revenue side,



1 expectations which changes in revenue or taxation will
2 create, there is room for more flexibility, assuming we
3 have decided it is desirable. It is true that if you
4 want to change the income tax fundamentally it is a
5 fairly long drawn-out process.

6 MR. TAYLOR: Yes. If you will recall when we
7 re-wrote the Income Tax Act about twelve years ago, ,
8 Assistant
Dr. Eaton, who was then the Deputy Minister in charge
9 of taxation, spent well over a year on preparatory work,
10 and then as a matter of policy the government
11 tabled the bill and gave it first reading at the end of
12 the session and said they were not going to proceed with
13 it at that session. This gave the general public an
14 opportunity to make comments and express views during
15 the intervening months. The bill was, as I said,
16 introduced and got first reading in May or June of one
17 year and it was not re-introduced until the spring of
18 the following year. That was a major rewriting of the
19 entire Income Tax Act.

20 COMMISSIONER MACKINTOSH: Purely from the
21 point of view of varying the revenue, if it was thought
22 desirable, which I do not say it is, it is possible to
23 add ten per cent to the income tax rates or subtract
24 one-twelfth, giving a month's holiday of income tax from
25 the next year's tax, and this could be done very
26 promptly and simply.

27 MR. TAYLOR: Yes. In the autumn of 1950, at
28 the time of the Korean affair, when we had to build up
29 our defence revenues very rapidly, we did it by putting
30 on a flat percentage increase which, I recall, after the

expectations which changes in revenue or taxation will create, there is room for more flexibility, assuming we have decided it is desirable. It is true that if you want to change the income tax fundamentally it is a

MR. TAYLOR: Yes. If you will recall when we re-wrote the Income Tax Act about twelve years ago, Dr. Taylor, who was then the Deputy Minister in charge of taxation, spent well over a year on preparatory work, and then as a matter of policy the government tabled the bill and gave it first reading at the end of the session and said they were not going to proceed with it at that session. This gave the general public an opportunity to make comments and express views during the intervening months. The bill was, as I said, introduced and got first reading in May or June of one year and it was not re-introduced until the spring of the following year. There was a major rewriting of the entire Income Tax Act.

COMMISSIONER WACHINTON: Fully from the point of view of varying the revenue, if it was thought desirable, which I do not say it is, it is possible to add ten per cent to the income tax rates or subtract one-fifth, giving a month's holiday of income tax from the next year's tax, and such could be done very promptly and simply.

MR. TAYLOR: Yes. In the autumn of 1950, at the time of the Korean affair, when we had to build up our defence revenues very rapidly, we did it by putting on a flat percentage increase which, I recall, after the



1 act was passed, was found to have taxed the extreme upper
2 limit by 102 per cent on their marginal income, and we
3 had to amend that in the following year. But we did not
4 regard that as being a very satisfactory method and the
5 following year we reconstructed the progressive
6 pattern of the income tax rates. That September, 1950,
7 emergency budget was introduced because things had to
8 move quickly and the Minister and the government
9 decided to put a flat percentage increase on the personal
10 income tax.

11 COMMISSIONER MACKINTOSH: Well, for other
12 purposes something similar was done in 1946, when the
13 income tax was reduced by 16 per cent, but the tax for
14 the current tax year was reduced by 4 per cent, that is,
15 by the same level for the last quarter.

16 MR. TAYLOR: Yes.

17 COMMISSIONER MACKINTOSH: We have had a
18 suggestion that in this area it might be worth looking
19 back at compulsory and refundable savings as a means by
20 which variation of tax rate or stabilization purposes
21 might be made more tolerable. Has any work been done
22 since the war on this?



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back at compulsory and refundable savings as a means by
which variation of tax rate or stabilization purposes
might be made more feasible. Has any work been done
since the war on this?



1 MR. TAYLOR: No, as you recall, during
2 the war we did have compulsory savings, which was
3 in a sense a form of refundable tax, and you only
4 paid it if you were not making certain other forms
5 of savings, such as life insurance, and
6 so on.

7 All I can say is that I think that
8 almost all kinds of items are some time
9 or other mentioned to the Minister, but I think it
10 is fair to say that there has been no serious con-
11 sideration given since the war to compulsory savings
12 in lieu of an increase in income tax. The matter
13 has been mentioned conversationally, I suppose.

14 COMMISSIONER MACKINTOSH: The British
15 government has given itself more latitude on taxation,
16 but I suppose it is too soon to be able to assess
17 the results of their experiment. They just used it
18 on the purchase tax.

19
20 MR. TAYLOR: Yes. The Chancellor
21 of the Exchequer can either raise or lower certain
22 commodity taxes by what we would call an order in
23 council and that, of course, is familiar to our
24 Minister.

25 President Kennedy, as I recall it,
26 made a similar suggestion in the income tax field
27 to Congress but hasn't yet had congressional
28 approval.

29 COMMISSIONER MACKINTOSH: In our
30 case the government has that latitude only in respect

MR. TAYLOR: No, as you recall, during

the war we had a very serious situation, which was

in a sense a form of refundable tax, and you only paid it if you were not making certain other forms of savings, such as life insurance, and

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MR. TAYLOR: Yes, The Opposition

of the Whigdom can either raise or lower certain

commodity taxes by what we would call an order in

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made a similar suggestion in the income tax field

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COMMISSIONER MACKINTOSH: In our

the Government has that latitude only in respect



1 to the tariff.

2 MR. TAYLOR: Under the Financial
3 Administration Act I think that the government has
4 power to give remission of tax and it can apply,
5 certainly, to any commodity taxes.

6 MR. BALLS: The provisions for remission
7 is in the Financial Administration Act, Section 22,
8 which provides that:

9 "The Governor in Council, on the
10 recommendation of the Treasury Board,
11 whenever he considers it in the public
12 interest, may remit any tax, fee or
13 penalty."

14 And the section goes on to indicate that:

15 "A remission pursuant to this
16 section may be total or partial,
17 conditional or unconditional, and
18 may be granted

19 (a) before, after or pending any suit
20 or proceeding for the recovery of the
21 tax ...

22 (b) before or after any payment
23 thereof has been made or enforced ...

24 (c) in the case of a tax or fee,
25 in any particular case or class of
26 case and before the liability therefore
27 arises."

28 COMMISSIONER MACKINTOSH: That sounds
29 broad enough! I don't know whether there will be
30 any questions arising on this or not.



Mr. TAYLOR. Under the Financial Administration Act I think that the Government has power to give remission of tax and it can apply, certainly, to any commodity cases.

MR. BAILEY: The provisions for remission is in the Financial Administration Act, Section 22, which provides that:

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I don't know whether there will be



1 COMMISSIONER LEMAN: I would like to
2 ask a question. Could we turn again to page 21 of
3 your brief. You give us there over all the years
4 from 1927 to 1962 the budgetary revenue for each
5 year, the budgetary expenditures, et cetera, and you
6 also express the figures in the last four columns
7 in terms of percentages of the Gross National Product.

8 We are not talking now about what
9 specifically might be done in the way of counter-
10 cyclical budgeting either from the revenue side or
11 the expenditure side, but in terms of what should
12 one think -- let us talk theoretically at first in
13 terms of each column -- what would one think to
14 reflect the concept of countercyclical budgeting,
15 would one keep his eye on raising the expenditures'
16 side as a percentage of the Gross National Product
17 or would one keep his eye on absolute dollar figures,
18 or how would one use the technique if you wanted to
19 use it?

20 MR. TAYLOR: Well, in forming a
21 judgment of the overall budgetary pattern, the Minister,
22 has meetings a couple of months before the budget is
23 coming down, to review the whole economic
24 situation and the economic prospects, and he then
25 reaches a decision as to what the pattern should
26 be and his emphasis will be more or less evenly
27 divided between expenditure patterns, revenue patterns,
28 and the resulting budgetary balance.

29 If the forecast seems to be a flattening
30 out in the economic activity, it is a matter of govern-



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I would like to



1 ment judgment as to whether this should be met by
2 increased expenditures of a certain constructive
3 nature or the releasing of a certain amount of
4 spending power by a reduction in tax
5 rates.

6 These are decisions which the Minister,
7 of course, has to reach in co-operation with his
8 colleagues, and I mean by that the Cabinet.

9 COMMISSIONER LEMAN: What I am driving
10 at is this, Mr. Taylor, that if we look at the Gross
11 National Product of your table we see that it has
12 been going up quite steadily, don't we?

13 MR. TAYLOR: Yes.

14 COMMISSIONER LEMAN: So, it is a nice
15 vague thing to say that countercyclical budgeting is
16 to spend more on goods and services when one sees
17 some slack in the economy and to spend less when
18 one sees that the economy is going up fast, but you
19 can't keep your eyes only on absolute figures, can you?

20 MR. TAYLOR: Certainly not.

21 COMMISSIONER LEMAN: Would you think
22 in terms of varying the percentages of the Gross
23 National Product which you have been dealing with?

24 MR. TAYLOR: Varying the ---

25 COMMISSIONER LEMAN: Percentage of
26 the Gross National Product figure, to see a variation
27 in that; is that what would be important? There is
28 no particular virtue in a surplus or a deficit as such,
29 it is the real effect of goods and services that
30 counts, isn't it?

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COMMISSIONER LEWIS: What I am driving

at is this, Mr. Taylor, that if we look at the Gross
National Product of your table we see that it has
been going up quite steadily, don't we?

MR. TAYLOR: Yes.

COMMISSIONER LEWIS: So, it is a nice

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to spend more on goods and services when one sees
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MR. TAYLOR: Certainly not.

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in that; is that what would be important? There is
no particular virtue in a surplus or a deficit as such,
it is the real effect of goods and services that

counts, isn't it?



1 MR. TAYLOR: Yes, that is one of the
2 major influences. These Gross National Product
3 expenditures in percentages are a fairly recent
4 introduction. They have been carried back to 1927,
5 but I think they were first referred to in Parliament
6 only about six or eight years ago.

7 COMMISSIONER LEMAN: We are always
8 talking about the marginal effects of such action,
9 are we not, so what I am asking you could be no good,
10 really, as a countercyclical weapon, you would have
11 to think in terms of a movement here on the expenditure
12 side in one year from 15 per cent of the Gross
13 National Product to, say, 18 per cent of the Gross
14 National Product when we want to spend more, and going
15 back to 15 per cent in a later year when you want to
16 spend less.

17 Similarly on the revenue side you
18 always think in terms of that percentage of the
19 Gross National Product which you want revenues to be.

20 MR. TAYLOR: You may recall that
21 the Ministers of Finance in their statements in
22 Parliament not infrequently refer to the deficit
23 or surplus as being the significant factor.

24 I recall Mr. Abbott when he was
25 Minister of Finance defending a very substantial
26 surplus he was budgeting for on the ground that
27 this was a substantial element in our anti-inflationary
28 policies, and to move on to the much more recent
29 period, Mr. Fleming as Minister of Finance has
30 explained that the reason, the major reason for a deficit



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MR. TAYLOR: You may recall that

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I recall Mr. Abbott when as Vice

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surplus as he was budgeting for on the ground that

there was a substantial element in our anti-inflationary

policy, and to move on to the much more recent

figures, Mr. Abbott is quoted as saying that

the deficit was the reason, and he was



1 was that it provided a measure of
2 encouragement to economic expansion.

3 COMMISSIONER LEMAN: Well, that is
4 exactly what I am groping for; what is the correct
5 notion to apply to this sort of thing? I am afraid
6 of vague expressions about spending more or spending
7 less, and I would like to get an anchor somewhere
8 as to what one means exactly about spending more or
9 spending less. I am just wondering if focussing on
10 the absolute amount of deficit or surplus is the
11 approach to the problem.

12 MR. TAYLOR: Well, as these are
13 matters of opinion which the economists from
14 across the country have very varying views on -- I
15 should add, of course, that particularly in relation
16 to the budgetary balance, the final results often
17 vary quite substantially from the forecast at the
18 beginning of the year, and yet these are often due
19 to quite modest percentage changes in either revenue
20 or expenditure. When you have a budgetary expenditure
21 of something over \$6 billion and revenues of about
22 the same order of magnitude, a one per cent variation
23 is a difference of \$60 million, and if your
24 expenditures are up by one per cent and your
25 revenues down by one per cent, you vary your
26 budgetary balance by \$120 million.

27 COMMISSIONER GIBSON: I would like to
28 go back to this delightful expression which Dr.
29 Mackintosh used, "the inside lag". This is the
30 time it takes to recognize a change and to do some-

was that it provided a measure of

encouragement to economic expansion.

COMMISSIONER LEWIS: Well, that is

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to quite modest percentage changes in either revenue

or expenditure. When you have a budgetary expenditure

of something over \$2 billion and revenues of about

the same order of magnitude, a one per cent variation

is a difference of \$20 million, and if your

expenditures are up by one per cent and your

revenues down by one per cent, you vary your

budgetary balance by \$40 million.

COMMISSIONER GILSON: I would like to

go back to this delightful expression which Dr.

MacKintosh used, "the malleable lag". This is the

time it takes to recognize a change and to do some-



1 thing about it and in a way make a decision.

2 Now, in talking to him you talked
3 about the various procedures that have to be gone
4 through. You have to watch statistics as to how
5 far the statistics are up to date and various
6 people have to be consulted and you have to reach
7 some kind of an understanding of minds before there
8 is a conclusion to be reached. Isn't there also
9 the problem of recognition both with regard to whether
10 things like increasing expenditures are increasing
11 taxes, and vice versa? Turning points in a business
12 cycle are always clear after the turn, but are not
13 always very clear at the time, and even when you think
14 there is a turning point you are not sure there is
15 much vim in the country or much down-turning, but
16 isn't there always a tendency to wait and see until
17 you can really reach a meeting of minds that there is
18 a strong move in one direction.

19 MR. TAYLOR: Yes. As you say, economic
20 forecasting, even of the experts, is by no means
21 perfect, and in a country like Canada with a highly
22 open economy, an awful lot depends on how things
23 will develop in the United States, western Europe,
24 Japan and other countries with which we have
25 substantial trade activities, so that it is not
26 easy to be at all precise on your forecasts.

27 Then, the parliamentary tradition
28 of having an annual budget which normally comes
29 down between the middle of March and the middle of April
30

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always very clear at the time, and even when you think

there is a turning point you are not sure there is

such a thing in the country or much down-turning, but

isn't there always a tendency to wait and see until

you can really reach a meeting of minds that there is

a strong move in one direction.

MR. TAYLOR: Yes, as you say, economic

forecasting, even of the experts, is by no means

perfect, and in a country like Canada with a highly

open economy, an awful lot depends on how things

will develop in the United States, western Europe,

Japan and other countries with which we have

substantial trade relations, so that it is not

easy to be at all precise on your forecasts.

of having an annual budget which normally comes

down between the middle of March and the middle of



1 means your decisions on expenditures
2 are taken very largely in November and December.
3 Decisions on the revenue side are taken in
4 January or February, and therefore there are these
5 important internal lags. Perhaps I should add
6 that government policies are important and influential, but
7 they are not completely dominant in the country.

8 The Minister of Finance referred
9 to this in Parliament in his October speech, pointing
10 out that a large degree of influence on the behavior
11 of the economy is entirely outside the government
12 range. It is how businessmen make their policies,
13 and so on. Of course, monetary policy and fiscal
14 policy have important influences, but they are not
15 exactly, shall I say, omnipotent.

16 COMMISSIONER GIBSON: What I am
17 getting at is this -- and you have partly answered
18 the point -- the inside lag plus the time these things
19 take to have effects in a real world is usually pretty
20 substantial, and sometimes it is quite long, and
21 in the circumstances do you think that if the
22 budgetary policy were used for countercyclical
23 purposes that it could be very effective in the short
24 cycle?

25 MR. TAYLOR: It can have some influence
26 on it if we are able to succeed in doing a good
27 job.

28 COMMISSIONER GIBSON: You have to be
29 pretty good forecasters if it will have an influence,
30 is that correct?



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1 MR. TAYLOR: Yes, and I would attach,
2 of course, a good deal of more importance to what
3 you might call the longer term effects of economic
4 growth.

5 COMMISSIONER GIBSON: That was what
6 I was going to ask you next, whether the medium term
7 isn't the more effective field where you get a real
8 change in the economic climate, as you did after
9 1957, and then another kind of policy may seem
10 appropriate for quite a considerable period of time.

11 MR. TAYLOR: And in both their
12 revenue and spending programs, what is equally
13 important to their grand total is their pattern;
14 in other words, in your spending of
15 six billion dollars, whether you raise or lower that
16 by two or three or five or ten per cent has some
17 effect, but the more important effect can come from
18 exactly how you will spend the money. That was
19 referred to a few minutes ago in rather general terms;
20 the equally important aspect of the spending program
21 is the pattern of spending, that that is just as
22 important and sometimes more important than the
23 grand total of spending.

24 COMMISSIONER GIBSON: In terms of its
25 permanence or its particular economic effect at the
26 time?

27 MR. TAYLOR: In terms of its economic
28 effect at the time, and also it has to be fitted in
29 to the prospects of what you might call the mid
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1 COMMISSIONER GIBSON: Then, there is
2 the other point that some additional expenditures are
3 almost by their nature bound to be permanent, whereas
4 others, such as Public Works, are not necessarily
5 intended that way.

6 MR. TAYLOR: The Public Works program,
7 as Dr. Mackintosh pointed out, to a considerable
8 extent can be accelerated or slowed down. I think
9 he said that to a parliamentary committee about fifteen
10 years ago when they were having a lot of argument about
11 having a shelf of work. I remember that Dr. Mackintosh
12 took that view, and when I was called before a Committee
13 at a later time I said that I didn't think you should
14 or could put important public projects on a shelf; you
15 had a total flow of construction expenditure, and if the
16 government wished to do so it could accelerate that flow
17 or slow down that flow in relationship to the business
18 cycle situation.

19 But when you work on a large construction
20 project, for example, the St. Lawrence Seaway you have
21 to finish it on schedule; we were spending \$4 or \$5
22 hundred million, or if you include the hydro, it was
23 well over the billion dollar figure; but it really
24 would not make sense to slow that down because business
25 was booming too much. It would not be sensible to spread
26 that project over eight or nine years rather than doing
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1 COMMISSIONER MACKINTOSH: It does
2 make sense to remove as many other public projects
3 as you can from that period.

4 MR. TAYLOR: Quite, and you recall
5 we did do that at the time of the Korean crisis.
6 We did cut back expenses quite substantially in
7 the Public Works end by slowing them down
8 and deferring them, and a similar action was
9 announced in the summer of 1962 when there was
10 a fair amount of reduction of expenditures, not
11 by cancelling but by deferring
12 certain public construction.

13 COMMISSIONER GIBSON: In thinking of
14 your description of what they are, it would seem to
15 me that there was one qualification to this that
16 Dr. Mackintosh listed -- or, it was somebody else --
17 and this was to reduce taxes at any time but it
18 didn't have to be a big lag, and there I take it
19 certain taxes can be increased between budgets and
20 this has happened in the case of tariffs. Could
21 you elaborate on that?

22 MR. TAYLOR: One case I can refer to,
23 of course, is the emergency import surcharges which
24 were based upon certain existing statutes.

25 To do that we employed the statutory
26 authority to put tariff rates up to the general
27 tariff level from the British preferential or the
28 Most Favoured Nation, and then remit the amount
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1 or ten or five per cent level.

2 COMMISSIONER GIBSON: This is the
3 only area where action was ---

4 MR. TAYLOR: I could go back to what
5 has been commonly called the "radio budget of 1947",
6 and legally this can be done because in every budget
7 speech the commodity tax changes go into effect that
8 night, but often a bill isn't passed for three, four,
9 eight or even ten weeks, and occasionally even longer,
10 and yet when the bill is passed the bill says that
11 this tax goes into effect on April 12 or March 18,
12 and so on.

13 COMMISSIONER GIBSON: When it was
14 announced?

15 MR. TAYLOR: Yes, when it was announced.

16 I know that Mr.
17 Abbott took the view when he announced on the radio
18 in November of 1947 that certain surcharges on the
19 excise tax would be introduced in parliament when
20 parliament met -- and it was going to convene in
21 about ten days at the time -- and when parliament
22 met it would be asked to make this tax
23 effective as of the night on which Mr. Abbott made
24 his radio speech.

25 Now, that was very highly criticized,
26 of course, and has been in subsequent years, but
27 there I believe that parliament can at any time
28 impose, legally impose a tax which is retroactive,
29 for
30 even retroactive/five years. It has never done
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3 COMMISSIONER GIBSON: In other words,
4 this is not a practical instrument from the stand-
5 point of regular anti-cyclical policy, it is an
6 emergency possibility.

7 MR. TAYLOR: There has been a good
8 deal of interest both by the public and at
9 government levels on the action taken
10 in the British parliament a year and a half ago
11 where parliament authorized in advance to the Chancellor
12 the power to move taxes up and down.

13 COMMISSIONER GIBSON: What about the
14 business of running surpluses and deficits from the
15 standpoint of public reaction? You say actually
16 there wasn't an anti-cyclical policy, but isn't there
17 a lot of public concern about deficits and concern
18 of another kind about running surpluses?

19 MR. TAYLOR: Well, I think that you
20 and your colleagues are as good judges as I am of
21 that. I think the public information in the last
22 decade or so has become much better informed on the
23 economic implications of budgetary surpluses and
24 deficits. The more informed public no longer takes
25 the view that budgets should always be balanced year
26 in and year out, which was the accepted view in the
27 19th century in England and a little more recently
28 in Canada.

29 COMMISSIONER GIBSON: If you had a five
30 years' budget, as Dr. Mackintosh suggested, would it



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COMMISSIONER GIBSON: It you had a five

years' budget, as Dr. Mackintosh suggested, would it



1 be hard to get around this problem? I don't make
2 any suggestion that we should have it or raise the
3 possibility.

4 MR. TAYLOR: Well, Mr. Steele referred
5 to making general forecasts or appraisals of
6 expenditures in the ^{coming} / three to five years, and
7 I think there are some very real technical problems
8 which will rise if you commit yourself to future
9 tax changes.

10 For example, I think there has been
11 a proposal in the United States that they should
12 reduce corporation taxes by a certain number of
13 points
percentage/ each year for the next three years. Well,
14 if you did that in Canada, if you announced that you
15 were going to cut corporation income taxes by three
16 percentage points this year and three next year, and
17 so on, it would give the chartered accountants an
18 awful lot of business in doctoring up the taxable
19 income this year and trying to postpone it if possible
20 two or three years from now.

21 COMMISSIONER MACKINTOSH: I could take
22 the view that the corporate taxes regularly are too
23 high and ought to be whittled down, but there is
24 no stabilization value in announcing a reduction of
25 taxes in five year steps.

26 MR. TAYLOR: No.
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MR. TAYLOR: No.



1 COMMISSIONER MACKINTOSH: You need a much
2 freer hand than that.

3 MR. TAYLOR: The only commitment we have made
4 ahead, and it is not an absolute/^{amount}commitment, is that
5 we have undertaken, not to reduce our taxes, but to reduce
6 our share of the personal income tax and raise the
7 provinces' share by one percentage point per annum.
8 They will get 16 per cent in 1962, 17 per cent in 1963,
9 and finally 20 per cent in 1966, of the total income
10 tax that we collect. Now, that does not commit us to
11 never raising or lowering our rates of taxation at any
12 time during the coming four or five years.

13 COMMISSIONER MACKINTOSH: Perhaps I can be
14 allowed to raise a point that I intended to raise
15 earlier. A few years back it was very popular to talk
16 about the built-in stabilizers in the budget. Am I
17 right that this has got a bit out of season now, and is
18 not quite so popular a view?

19 MR. TAYLOR: I can remember a semi-learned
20 journal publishing a paper sometime ago showing that
21 these stabilizing payments resulted in a much smaller
22 amplitude in the ups and downs of the rate of growth
23 of consumer expenditure. Mr. Hockin, you have been
24 doing some work in this area. Have you any comments
25 to make?

26 MR. HOCKIN: Well, having just had a session
27 abroad with a group that was particularly interested
28 in this aspect, Mr. Chairman, it is, perhaps worth
29 reporting that there was quite a strong body of opinion
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1 by themselves were not worth anything; that what you
2 needed was something over and above the built-in
3 stabilizers; that if you really wanted to overcome
4 cyclical effects, you had to do something deliberate
5 in bringing about a loss of revenue or an increase in
6 over and above
expenditures / such things as unemployment insurance
7 payments; and that if they were built-in they were
8 ipso facto really not very good. This was a view that
9 was quite strongly expressed. To that extent I think
10 there is certainly a body of opinion which takes
11 the view, to use Dr. Mackintosh's expression, that it
12 is, in fact, a bit out of season to say that built-in
13 stabilizers work today.

14 COMMISSIONER MACKINTOSH: I would take it that
15 this view was founded on effective expectations rather
16 than on the effect of simple variations in government
17 intake and outgo?

18 MR. HOCKIN: It is not very clear as to
19 exactly what this view is built on.

20 THE CHAIRMAN: It was built-in -- or was not
21 built-in.

22 COMMISSIONER MACKINTOSH: You just go on, as
23 it were, on an accounting basis within a variation, as
24 between surplus and deficit, of \$2 billion, or whatever
25 you say will have the same effect. If you say it must
26 be deliberate than you must base your conclusion on
27 expectations.

28 MR. HOCKIN: I think it was a view really
29 that the built-in stabilizers themselves could just
30 bring about an improvement within a relatively narrow

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3 the built-in stabilizers you have to have something which
4 goes further, either in the direction of creating a
5 bigger deficit or in the direction of creating a larger
6 surplus. But, most of the discussion seemed to be of
7 the sort related to the creation of a bigger deficit.

8 COMMISSIONER MACKINTOSH: I think that coincides
9 with a vague view of my own that a great deal depends,
10 with respect to surplus or deficit, on whether general
11 opinion is that the government was pushed into it or
12 embraced it deliberately.

13 MR. TAYLOR: I recall that eight or ten years
14 ago a fairly distinguished Canadian economist came to
15 see me and had a long talk with me, arguing that we
16 should set up a perfect tax structure and then never
17 change the taxation rates at all. His view was that in
18 years of economic depression we would automatically run
19 a deficit and in years of prosperity we would automatically
20 run a surplus, and that that would cure all the problems.

21 COMMISSIONER BROWN: That visualizes an
22 automatic rate of expenditure too.

23 MR. TAYLOR: Yes. That was when expenditures
24 were going down a bit, and he thought
25 they were still going that way.

26 COMMISSIONER BROWN: I wonder if I could go
27 back to the question that was asked earlier about the
28 relative merits of reducing tax rates, or increasing
29 expenditures. You might properly say that this is a
30 decision that the Minister at the time would have to

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1 make. At the same time, we have been discussing some
2 examples of increasing expenditures for purposes of
3 monetary policy and purposes of economic policy and
4 this includes the contributions to lower or junior
5 governments on a participating basis, and so on and so
6 forth. Can you give us some examples of where for
7 purposes of monetary policy and based on economic
8 forecasting the tax rates were reduced in an endeavour
9 to stimulate the economy, and can you give us a picture
10 of how effective they were?

11 MR. TAYLOR: I do not think I can at the
12 moment --

13 COMMISSIONER BROWN: In other words, is this
14 something that has not been used in Canada?

15 MR. TAYLOR: Well, it is the kind of thing
16 which we had to give a good deal of consideration to,
17 but it is rather hard for me to say just exactly what
18 was done and why it was done. Almost nothing is done
19 for a single reason. They are usually several reasons
20 why you do this or why you do not do that.

21 COMMISSIONER BROWN: Was there not a reduction
22 in the excise tax on automobiles; would that not fall
23 into that category?

24 MR. TAYLOR: Yes. The Minister
25 said when it was first reduced by one-quarter and then
26 abolished entirely -- that is the special excise tax
27 on automobiles, and the Minister did say at that time
28 that that was designed to give encouragement to a
29 particular area of the economy.

30 COMMISSIONER BROWN: You have no examples of



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COMMISSIONER BROWN: You have no examples of



1 reduction in the rates of corporation tax or individual
2 income tax for this purpose?

3 MR. TAYLOR: No, I do not think the Minister
4 has ever used that sort of explanation, or given that
5 reason, when corporate taxation or income taxation was
6 being changed.

7 COMMISSIONER BROWN: All I was trying to get
8 at in a broader point of view is the extent of your
9 use of economic forecasting from the point of view of
10 stimulating the economy or slowing down the economy,
11 or from the point of view of looking at your own
12 picture of revenues.

13 MR. TAYLOR: As I said earlier, in reaching
14 a general appraisal of what the pattern should be in
15 the coming year the Minister does give a great deal of
16 thought to the general economic indications of his
17 budgetary policy, but the precise decisions are based
18 on quite a variety of representations either for or
19 against different types of tax changes or expenditure
20 changes.

21 THE CHAIRMAN: We will adjourn for ten minutes.

22
23
24 --- A short recess.

25
26
27 THE CHAIRMAN: We will now resume.

28 Mr. Taylor, we have been discussing the
29 cyclical problem with respect to the federal government
30 briefly, and I would like to look at it from the point



reduction in the rates of corporation tax or individual

MR. TAYLOR: No, I do not think the Minister has ever used that sort of explanation or given that reason, when corporate taxation or income taxation was being changed.

COMMISSIONER BROWN: All I was trying to get at in a broader point of view is the extent of your use of economic forecasting from the point of view of stimulating the economy or slowing down the economy, or from the point of view of looking at your own picture of revenues.

MR. TAYLOR: As I said earlier, in reaching a general appraisal of what the pattern should be in the coming year the Minister does give a great deal of thought to the general economic indications of his budgetary policy, but the precise decisions are based on quite a variety of representations either for or against different types of tax changes or expenditure.

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THE CHAIRMAN: We will now resume.

Mr. Taylor, we have been discussing the cyclical problem with respect to the Federal Government, and I would like to know if it is possible



1 of view of possible coordination between the federal
2 and the junior governments, -- that is, particularly,
3 the governments of the provinces. First of all, I would
4 like to look at the possibility of some sort of cyclical
5 program that involves capital expenditures in the way of
6 construction and that sort of thing. Has there been any
7 attempt to work out a program of that kind, or has there
8 been any consideration given to it together with the
9 provinces?

10 MR. TAYLOR: Do you refer to having a coordi-
11 nated --

12 THE CHAIRMAN: I am thinking of a program
13 which would involve the expenditure of money on t
14 construction projects at a time when the economy is
15 slow. That is really what it amounts to.

16 MR. TAYLOR: There has not been any formal
17 coordination. I think there is a fair amount of
18 conversation that goes on between levels of government
19 as to the merits of this area. I think, perhaps, one
20 of your colleagues, Mr. Gibson, could inform you because
21 he was quite active in preparing the famous Green
22 Papers in 1945, which I missed because, for the only
23 time in my life, I spent two months in the hospital
24 that summer. I was not present and I did not have much
25 to do with it, but there was a greal deal of discussion
26 then of dominion-provincial coordination in the general
27 financial and fiscal areas.

28 THE CHAIRMAN: And specifically in this area,
29 as I recall it, there was a proposal that the federal
30 government would contribute 20 per cent to the cost of

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Government would contribute 20 per cent to the cost of



1 plans, I think it was, to support a program of that
2 kind if it were timed in an appropriate way. I think
3 it was something of that kind. It was fairly general
4 at that time.

5 MR. TAYLOR: You will recall that the govern-
6 ment has done quite a bit in this general area in the
7 last year or two.

8 THE CHAIRMAN: I believe it has. I have heard
9 something about that.

10 MR. TAYLOR: The government has undertaken
11 to give additional grants in aid to certain construction
12 projects if they are undertaken before March 31, 1963,
13 and I think that date has now been extended for another
14 year.

15 THE CHAIRMAN: Has very much been done, do you
16 know, under that program?

17 MR. TAYLOR: Oh, yes, quite a lot. This
18 includes the areas of water and sewers. The government,
19 not so much for cyclical reasons but for the longer term
20 quality of employment, has put a great deal of encourage-
21 ment and, indeed, pressure on the provinces by offering
22 them very substantial financial assistance for
23 the building of technical training institutes.

24 The water and sewer projects, I think, could be
25 more directly focussed on the cyclical situation, but
26 the vocational training institutes are not so much
27 founded on a cyclical basis as on a longer term basis,
28 the importance of having a much higher proportion of
29 technically skilled workers.

30 THE CHAIRMAN: But a considerable amount of



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THE CHAIRMAN: But a considerable amount of



1 building has already been done under the vocational
2 training plan?

3 MR. TAYLOR: Yes, a very large amount. Was
4 there a time rate there?

5 MR. STEELE: The incentive features of that
6 program increased the federal government's share from
7 50 per cent to 75 per cent.

8 THE CHAIRMAN: The federal government's share
9 is 75 per cent?

10 MR. STEELE: For capital works.

11 THE CHAIRMAN: That includes the vocational
12 program?

13 MR. STEELE: Yes, specifically that, sir.

14 THE CHAIRMAN: And the other program with
15 respect to sewers and that sort of thing -- is that also
16 75 per cent?

17 MR. TAYLOR: My recollection is -- and I am
18 sorry for not having the figures here -- that the money
19 on the water and sewer projects is loaned, but if the
20 work is undertaken prior to a certain date 25 per cent
21 of the loan will be remitted and will become a grant.

22 THE CHAIRMAN: Well, the concentration on
23 the sewers is probably because the work can be started
24 more quickly and turned off more quickly. Is that one
25 of the reasons?

26 MR. TAYLOR: These grants are not for ordinary
27 side-street sewers. What is contemplated here is the
28 main trunk sewer, the construction of which is quite
29 a substantial operation. The one in Ottawa, for
30 example, is to take about five years to complete, and



Setting out a line of sewer (the sewer)

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main trunk sewer, the construction of which is quite

a substantial operation. The one in Ottawa, for

example, is to take about five years to complete, and



1 the work has been going ahead very rapidly in the last
2 two years.

3 COMMISSIONER MACKINTOSH: Is it basically to
4 help the municipalities expedite housing by getting these
5 big trunk sewer projects through?

6 MR. TAYLOR: Yes. Another factor in some areas
7 is the increasing concern with respect to water pollution
8 in certain rivers, both domestic and international.

9 THE CHAIRMAN: But the large trunk sewer
10 projects which take five years to build would be more
11 than just useful as part of a cyclical program. It
12 might be started in a time of slackness, but it would
13 have to proceed in any event to its completion, I
14 suppose?

15 MR. TAYLOR: Oh, yes.

16 THE CHAIRMAN: I noticed that there is a
17 continuing committee established between the provinces
18 and the federal government dealing to a large extent
19 with financial matters. Has that committee ever given
20 any consideration to this sort of program?

21 MR. TAYLOR: The continuing committee on
22 dominion-provincial economic affairs -- is that its
23 correct title -- was set up in 1955. The Deputy Minister
24 of Finance is the ex officio chairman, and the
25 provincial nominees are normally the deputy provincial
26 treasurers, although they are not invariably those
27 officials. The primary work of the committee has to do
28 with the operations of the dominion-provincial tax
29 agreements and the tax sharing program, but we do have
30 a fair amount of discussion at our various meetings on



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1 other matters of general economic interest and impor-
2 tance.

3 The committee meets not less than twice a
4 year, and we deal with a considerable variety of items.
5 We have no authority or power to make decisions. The
6 meeting is a series of discussions, and then each person
7 reports back to his own Minister or his own government,
8 although frequently on a number of technical points,
9 particularly in the tax agreement areas, we reach
10 unanimous views as to what should be done, and then that
11 view is carried out by the respective governments.

12 THE CHAIRMAN: There has been considerable
13 progress made in the ---

14 MR. TAYLOR: Well, a very important advantage
15 of this committee is that we have become very well
16 known to each other. Prior to that time I knew quite
17 a few of the provincial people, but I did not know them
18 very well, and in the last 7 or 8 years the committee
19 has resulted in the provincial officials themselves
20 getting to know each other and understanding what is
21 going on in the other provinces, and there has been
22 brought about a pretty intimate acquaintance at this
23 fairly senior official level.

24 One result is that I get a fair number of
25 telephone calls from them. These calls are entirely
26 unofficial and what is said during them is, so to speak,
27 off the record, but sometimes they will call up and
28 say: "We are thinking of a certain kind of bond issue.
29 What do you think about it?", and I will give them my
30 views and try to answer their questions. Sometimes the

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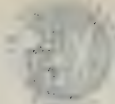


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1 bond issue never materializes, and sometimes it is quite
2 different from what was described at first. However,
3 there is a good deal of fairly intimate contact between
4 the provincial governments and the dominion government
5 in this financial area. Of course, there are other
6 dominion-provincial committees that deal with mining,
7 agriculture, health and welfare, and so on. There is
8 quite a number of committees of that sort that are
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attached.



1 THE CHAIRMAN: But this continuing
2 committee is chiefly concerned with financial
3 problems?

4 MR. TAYLOR: Yes. On one or two
5 occasions when the financial implications of certain
6 fields came up, say, in the Health and Welfare field,
7 it has been agreed that each individual should advise
8 his Minister to see that the interprovincial committee
9 on Health and Welfare review this or that aspect
10 of their problems.

11 THE CHAIRMAN: The question I am
12 about to ask may not be a fair question, considering
13 the cyclical program, but let me say first that
14 in our travelling throughout the country a number
15 of representations from provincial governments and
16 others advocated some sort of program of this nature.
17 That is why we are bringing it up here today, to
18 get your view. There seems to be some feeling
19 that a considerable amount could be done by a program
20 of this kind. I was wondering if you are in a
21 position to say whether your experience with respect
22 to that sort of thing so far would indicate a reasonable
23 possibility or not.

24 MR. TAYLOR: This would be very much
25 a decision which would have to be reached at the
26 political or government levels.

27 THE CHAIRMAN: Then I shall not press
28 you for an answer to that question.

29 COMMISSIONER GIBSON: May I ask a more
30 moderate question in the same vein? Do the informal

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COMMISSIONER LEBSON: May I ask a more

moderate question in the same vein? Do the



1 discussions which you have had extend to problems
2 of economic stabilization, deficits, services, and
3 so on?

4 MR. TAYLOR: Not in great detail.
5 The committee meets normally twice a year. When
6 the quinquennial agreements are being reached we
7 often have to meet five or six times a year on the
8 Dominion-Provincial tax-sharing arrangements.

9 Usually we provide for at least a
10 couple of hours at our meetings for a general economic
11 review and economic appraisal. In those sessions
12 there is a fair amount of discussion of policies
13 which affect economic growth and stabilization,
14 but we do not try to reach any conclusion. I usually
15 lead off, or ask Mr. Hockin to lead off, on an
16 economic analysis of what is going on, and we invite
17 some of the provinces to express their views as to
18 how things are going in their regions. That is about
19 as far as we go.

20 COMMISSIONER GIBSON: It would not
21 bear any resemblance to the discussions between the
22 O.E.E.C. countries in the past years about their
23 relative financial programs?

24 MR. TAYLOR: No.

25 COMMISSIONER GIBSON: To carry on with
26 this same subject, could you envisage much more
27 progress along these line with the existing machinery,
28 or would you need a permanent secretariat if you were
29 going to provide this aspect of Dominion-Provincial
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co-operation?



1 MR. TAYLOR: Again, I have to refer to this
2 as a statement by individuals. The representatives
3 of two or three provinces have suggested at various
4 times that there should be a secretariat and/research ^{full time}
5 committee set up, and that matters of that kind should
6 be undertaken. But, that suggestion has not received
7 unanimous support at our meetings.

8 In our Dominion-Provincial section
9 of the Department of Finance we do provide a person
10 who acts as the secretary of the continuing committee,
11 and we do a fair amount of studies of various aspects,
12 though we have never found time to make the more
13 elaborate research undertakings which some of the
14 provinces have expressed a good deal of interest in.

15 One of the items which some of the
16 provinces have been pressing for has now been taken
17 over by the appointment of the Royal Commission on
18 Taxation.

19 COMMISSIONER GIBSON: But anything
20 that is presented at the meetings is presented by
21 the federal government or one of the provincial
22 governments. There is no presentation of any ideas
23 by any secretariat of any kind? I mean by that,
24 the man you have in Ottawa does not belong to the
25 conference?

26 MR. TAYLOR: He serves as secretary
27 of the meetings. TAYLOR: NO. His main operation
28 from week to week is the operation of the tax sharing
29 arrangements. He also is responsible for our grants
30 to municipalities in lieu of taxation on federal
real estate, and he has a number of other items.

and I think I have to leave to you

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1 THE CHAIRMAN: We have the position
2 put to us by some witnesses that monetary policy is
3 limited in its effect to deal with recession conditions,
4 and they suggest that the main brunt of the load is
5 to be taken by fiscal policies. Others who were
6 dealing with fiscal policy, and are more interested
7 in that problem, say that fiscal policy has its
8 limitations and that the greater share of the burden
9 has to be taken by something else.

10 Is not the real solution, or the
11 progress towards a solution, a combination of all
12 policies that might in themselves have the effect
13 of improving the situation; that is, supporting
14 monetary policy by certain fiscal policies of various
15 kinds, and thereby creating an improved atmosphere.

16 MR. TAYLOR: There is really no
17 panacea. All these policies are parts of a general
18 economic policy, and there is a certain amount of
19 overlapping of each other. They also have different
20 degrees of influence, not just in the up and down
21 stages of the business cycle, but because of the
22 variations in business cycles. . . There is one
23 other point of real importance, namely, the general
24 problem of the current account balance of
25 international payments. That is one of the major
26 economic problems to which this country has to
27 address itself.

28 THE CHAIRMAN: In dealing with the
29 problem of tax reductions as one item, in view of
30 the large expenditures by the provinces today, any



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limited in its effect to deal with recession conditions,

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THE CHAIRMAN: In dealing with the

problem of tax reductions as one thing in view of

the other is that in the present situation



1 tax reduction for the purpose of assisting the
2 economy to be effective would have to be co-ordinated
3 with the provincial taxation, would it not? Is that
4 a practical proposition?

5 MR. TAYLOR: It certainly is one of
6 very broad interest and significance. Again, this
7 is a matter which would have to be considered at a
8 very high political level. As you know, a good many
9 of the provinces from time to time suggest that the
10 Dominion government should reduce its taxation, not
11 in order to give more spending power to the general
12 public, but to give more room for them in the field
13 of taxation.

14 THE CHAIRMAN: That seems very familiar,
15 indeed.

16 MR. TAYLOR: I won't go into your
17 past history, Sir.

18 THE CHAIRMAN: I am very moderate.
19 There is one further item here. I
20 understand that sometimes complaints are received
21 from the provinces about the cost-sharing program.
22 It is clear that they distort the capital expendi-
23 tures and cause a shifting away from some programs
24 of their own towards those to which the federal
25 government pays a share. As far as they are
26 concerned, there is a certain amount of dissatisfaction.
27 Is that still so?

28 MR. TAYLOR: We, of course, have a
29 very large amount of cost-sharing programs, largely
30 in the Health and Welfare field, and also in certain

has been for the purpose of assisting the

country to be able to have to be co-ordinated

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MR. TAYLOR: No, of course, there is

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1 other areas. I am not aware of any province saying
2 publicly they did not like these programs. Some
3 provinces have delayed two or three years in coming
4 into the program. For example, when we introduced
5 unemployment assistance, two or three provinces did
6 not come in the first year, and one province stayed
7 out for about three years before participating in
8 the unemployment assistance cost-sharing program.
9 As I say, I am not aware of any public statement
10 by a province that it disapproved of this or that
11 cost-sharing offer.

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1 COMMISSIONER HARROLD: Mr. Chairman, I have
2 two or three questions which I should like to ask with
3 respect to section 5 of the submission now before us.
4 Perhaps this is the time to take these questions up.

5 THE CHAIRMAN: Section 5?

6 COMMISSIONER HARROLD: I am sorry, section 4.

7 MR. TAYLOR: On guaranteed loans?

8 COMMISSIONER HARROLD: Yes.

9 MR. TAYLOR: It starts at page 50.

10 COMMISSIONER HARROLD: Yes. There is the
11 heading, "Loans by the Chartered Banks guaranteed by
12 the Government". And in the first paragraph you have
13 this sentence:

14 "In effect, these loan schemes serve to
15 fill a gap in existing private financial
16 facilities."

17 Then on page 58, I believe it is, there is
18 a paragraph which talks about the introduction of
19 government guaranteed loans. I am referring specifically
20 to the Farm Improvement Loan that, I believe, was
21 incorporated 17 years ago, in 1944. You say:

22 "The introduction of government-guaranteed
23 loans gave farmers more comprehensive access
24 to the banks and thus to the largest pool
25 of loan funds in Canada. In establishing
26 a viable debtor-creditor relationship between
27 farmers and the banks for credit beyond short-
28 term requirements, the Act was effective in
29 breaking down institutional barriers which
30 had existed previously."



COMMISSIONER HAROLD: Mr. Chairman, I have

respect to section 5 of the submission now before us.

Perhaps this is the time to take these questions up.

THE CHAIRMAN: Section 5?

COMMISSIONER HAROLD: I am sorry, section 4.

MR. TAYLOR: On guaranteed loans?

COMMISSIONER HAROLD: Yes.

MR. TAYLOR: It starts at page 50.

COMMISSIONER HAROLD: Yes. There is the

heading, "Loans by the Chartered Banks guaranteed by

the Government". And in the first paragraph you have

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farmers and the banks for credit beyond short-

term requirements, the Act was effective in

breaking down institutional barriers which

had existed previously."



1 To what institutional barriers were you
2 referring in that last sentence?

3 MR. PLUMPTRE: I think what was embodied
4 in those rather cryptic words were that while the
5 Canadian chartered banks are not limited by law in
6 certain directions, they have certain institutional
7 views as to what is proper and what is not proper for
8 the chartered banks, commercial banks, to do, and the
9 introduction of the guaranteed loans, first of all, in
10 the farming field, released them from what otherwise
11 might have been institutional inhibitions rather than
12 legal constraints. That is what I believe is intended
13 in that language.

14 COMMISSIONER HARROLD: I was just wondering
15 if it was necessary to introduce the farmers to the
16 bankers or the bankers to the farmers there.

17 MR. TAYLOR: And whether they were farmers of
18 western Ontario or western Canada.

19 COMMISSIONER HARROLD: I come back to the first
20 question. In effect, these loan schemes serve to fill
21 a gap. We have had some suggestions that probably this
22 reticence or gap is not there any more so far as the
23 banks are concerned, that they have been well introduced
24 and might go along without government guarantees. Do
25 you feel this gap still exists and that there is a
26 necessity for government guarantees?

27 MR. PLUMPTRE: I think this question might
28 be put to the chartered banks, whether they would feel
29 free and inhibited to make this range of loans in the
30 same volume without the guarantee. My personal view

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MR. PLUMPTRE: I think what was embodied

MR. PYMPTER: I think this question might



1 would be that they would not make them at the same rate
2 and in the same volume, but it might be preferable to
3 ask the bankers that.

4 COMMISSIONER HARROLD: In looking further into
5 the experience that they have had, and the low loss ratio
6 in government-guaranteed loans, is it suggested to you
7 that it is the government guarantee that makes it
8 attractive to the banks rather than the business as
9 such?

10 MR. PLUMPTRE: No; the loss ratio, as you
11 point out, has been very low, but again I come back
12 to those cryptic words which you raised earlier, and
13 the question is whether the banks, without, as it were,
14 a government blessing, would feel entirely free to
15 operate in this field.

16 COMMISSIONER HARROLD: Government blessing or
17 government urging, which?

18 THE CHAIRMAN: Moral suasion.

19 COMMISSIONER HARROLD: As I understand it the
20 kind of guarantee the government gives is up to 10
21 per cent on any one loan. Is it possible that there
22 might be a smaller loss ratio experienced if there
23 were some different kind of guarantee? What I am
24 thinking of is perhaps a 10 per cent loss to the lender
25 as such rather than a full, blanket 10 per cent before
26 he is subject to loss of any kind.

27 MR. PLUMPTRE: You mean, for instance, under
28 the Export Credits Insurance Act, the insurance only
29 goes up to 85 per cent? Is that the sort of thing you
30 have in mind?



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MR. PLIMPTON: No; the loss ratio, as you point out, has been very low, but again I come back to those cryptic words which you raised earlier, and the question is whether the banks, without, as it were, a government blessing, would feel entirely free to operate in this field.

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thinking of is perhaps a 10 per cent loss to the lender as such rather than a full blanket 10 per cent before he is subject to loss of any kind.

MR. PLIMPTON: You mean, for instance, under the Export Credits Insurance Act, the insurance only goes up to 85 per cent? Is that the sort of thing you

is about



1 COMMISSIONER HARROLD: No, that is not exactly
2 the kind of guarantee I had in mind. 10 per cent of any
3 loan is charged to the lender up to the maximum of the
4 total of the losses which may be encountered.

5 MR. PLUMPTRE: Yes.

6 COMMISSIONER HARROLD: Would this type of
7 guarantee make some difference to this kind of loan?

8 MR. PLUMPTRE: Again, the question should be
9 addressed to the bankers as to how they would behave
10 under this different form of government guarantee. If
11 I understand what you are proposing, it is, as I say,
12 a less comprehensive or less generous government
13 guarantee for this type of business, and if you are
14 right in the implications of your first question, that
15 now that this loaning operation is established it would
16 go forward without any form of guarantee, clearly a
17 reduction in the effective guarantee would not affect
18 it much.

19 MR. TAYLOR: If we were to abolish or repeal
20 this Act you would have to incorporate into the Bank
21 Act the security side of the Farm Improvement Loans
22 Act so that they could continue to make their medium
23 term loans. Most of the loans are for a medium period.
24 Very few are for less than three years, and the maximum
25 is a 10-year loan.

26 COMMISSIONER HARROLD: Well, this security
27 they take now is in the main under section 88 of the
28 Farm Improvement Loans Act, is it not? In any event,
29 there is one more question I should like to ask. I
30 do not know whether I should address it directly to you

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1 or to the chartered banks. It has reference to the
2 5 per cent interest rate. Do you see anything wrong
3 with the 5 per cent interest rate for this kind of a
4 loan?

5 MR. TAYLOR: That could only be done by an
6 act of parliament?

7 COMMISSIONER HARROLD: And if a government
8 survey of this particular problem sought the opinion
9 of the Deputy Minister, would he have an opinion or
10 would he say that the government is responsible for
11 this particular area?

12 MR. TAYLOR: I have no information as to what
13 parliament should or should not do.

14 COMMISSIONER LEMAN: Can it be inferred, though,
15 Mr. Taylor, that when these Acts were passed in
16 parliament they probably did not have a monetary policy
17 in mind?

18 MR. TAYLOR: This act was passed before I
19 ever became a member of the Department of Finance. My
20 understanding is that it was to a large extent a matching
21 legislation to the Industrial Development Bank Act, to
22 provide for medium term loans.

23 Normally the bulk of chartered bank loans is
24 for working capital. They are short-term loans. These
25 are longer term loans, and very few of them are for less
26 than three years and the maximum period is for ten years,
27 and they are term loans.

28 I also believe that an important element in
29 developing this Act was the very substantial interest
30 rates that were paid by farmers on equipment when they

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1 purchased them on what you might call the instalment
2 plan. They frequently bought their more expensive
3 machinery and paid for it in a course of three to five
4 years, and their financing costs were fairly high,
5 certainly much more than simple interest of 5 per cent.

6 COMMISSIONER LEMAN: I am not referring to
7 those ones in particular or alone. If I look at the
8 whole series of them, I see that the minimum is 5 per
9 cent for the Veterans, 5 per cent for the Fisheries,
10 and $5\frac{1}{2}$ per cent for the Small Businesses. There is a
11 maximum under each Act.

12 MR. TAYLOR: Excuse me, but there is no
13 maximum under the Small Businesses Loans Act. The
14 maximum would be 6 per cent in law but there is no
15 maximum rate in the Small Businesses Loans Statute.

16 COMMISSIONER LEMAN: Which one is $5\frac{1}{2}$ per cent?

17 MR. TAYLOR: The Small Businesses Loans Act
18 is $5\frac{1}{2}$ per cent, but that is --

19 COMMISSIONER LEMAN: Well, let us talk about
20 the first three. They all have that maximum of 5 per
21 cent in common. You could probably explain the reasons
22 why that was set in these acts, but I am just asking you
23 if a case could be made for more flexibility, perhaps
24 by Order in Council.

25 COMMISSIONER BROWN: On page 68 it says that
26 the maximum rate of interest is $5\frac{1}{2}$ per cent per annum
27 under the Small Businesses Loans Act.

28 MR. PLUMPTRE: Yes. I am sorry about that.
29 May I say that I was responsible for this area of
30 drafting. The maximum rate by arrangement is $5\frac{1}{2}$ per cent,

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1 but it is not a statutory rate maximum. I am sorry for
2 this because it is a misleading statement as it appears
3 here.

4 MR. TAYLOR: May I have the question again,
5 please?

6 COMMISSIONER LEMAN: I am just suggesting to
7 you, Mr. Taylor, that while you cannot re-write the
8 Acts that are passed by parliament, and you have already
9 said that, it still remains at any time for anyone in
10 the country to be in a position to borrow more cheaply
11 than the federal government does creates a situation
12 such as this.

13 MR. TAYLOR: There is this statement of fact.
14 What used to be the Canadian Farm Loan Board is now the
15 Farm Credit Corporation, and under this
16 corporation the loans are made directly by the govern-
17 ment. They are not guaranteed loans. Prior to the re-
18 writing of the Act as the Farm Credit Corporation Act,
19 the rate to be charged by the Farm Loan Board was set
20 by the Board of Directors and it did vary from time to
21 time. When the act was rewritten and the corporation
22 named, parliament put 5 per cent into the statute.
23 These are long-term farm mortgages, up to 25-year loans.

24 MR. PLUMPTRE: May I just return to the point
25 I was explaining a moment ago? Each section of this
26 material on the various guaranteed loans describes the
27 conditions prevailing under the legislation and
28 regulations. Therefore, it is not clear that in certain
29 of the acts, those other than the Small Businesses Loans
30 Act, the maximum is statutory, whereas in the Small

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1 Businesses Loans Act it is a maximum under the regu-
2 lations; the act provides for Orders in Council.

3 COMMISSIONER MACKINTOSH: What is the current
4 maximum rate on Home Improvements Loans?

5 MR. TAYLOR: That comes under Central
6 Mortgage and Housing Corporation, but I think it is 6
7 per cent.

8 COMMISSIONER HARROLD: The maximum loan under
9 the Farm Improvement Loans Act at the present time is
10 \$7,500, I think. Have you had any representations
11 to the department as to whether it should be increased
12 to, say, \$10,000?

13 MR. TAYLOR: It has been raised from time to
14 time by parliament. It started off at \$3,000 and was
15 raised to \$4,000 then \$5,000, and finally to \$7,500.

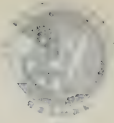
16 COMMISSIONER HARROLD: We have had a
17 suggestion before this commission in one or two sub-
18 missions that it should be raised to \$10,000. You
19 have no opinion on that at the moment?

20 MR. TAYLOR: No.

21 COMMISSIONER HARROLD: You have not given it
22 any consideration?

23 MR. TAYLOR: Any representation of that sort
24 I shall be glad to bring to
25 the attention of my Minister.

26 COMMISSIONER LEMAN: Mr. Taylor, there is
27 another aspect of these loans which struck me as I
28 read this section, and that is do you consider the
29 administration cost is fairly high? I notice that the
30 government keeps a complete register of all these loans



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1 that are guaranteed, which seems normal, that when you
2 guarantee something you want to know what you are
3 guaranteeing, but it looks as though there are two
4 sets of books being kept for all these loans.-- one by
5 the lenders themselves and one again by the federal
6 department. Is the administration cost fairly high?



1 MR. PLUMPTRE: May I answer that,
2 Mr. Taylor? I wanted to answer that because I
3 wanted to be able to say something that Mr. Taylor
4 said to me two or three months ago when he proposed
5 that we should review the costs in this particular
6 field, having in mind the possibility of duplication
7 which you have referred to. At my request this
8 review, which we intend to undertake of the
9 operations of our Guaranteed Loans Division, has
10 been postponed until we know what the Glassco
11 Commission is proposing.

12 We have, in fact, seen some informal
13 indications of what they are thinking, but we are
14 planning to have a review of the operation of this
15 section of our department, but I am not quite sure
16 what will be thrown up. I do not think that the
17 operation would appear costly against the total
18 volume. There are, as Mr. Taylor mentioned, when
19 he was replying to an earlier question of yours,
20 sir, only about eighteen persons involved covering
21 all these Acts that are treated in this section,
22 plus the Veterans Loans Act, which is not described
23 here. My case is that the costs of supervision
24 are really pretty low, but they may be subject to
25 even further reduction.

26 MR. TAYLOR: The actual cost -- I
27 have the estimates here -- is \$119,000. That is
28 the estimate for 1962-63, the year just coming
29 to an end. That, of course, like all government
30 departments, does not include rent for offices, and



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1 so forth, but it covers the actual cost expenditure
2 of salaries, travelling expenses, administration
3 work generally. As Mr. Plumptre said, this covers
4 all these Acts, and not just the Farm Improvement
5 Loans Act.

6 COMMISSIONER LEMAN: Another point
7 struck me as I read this section, and that is the
8 fact that the loaning power was extended only to the
9 banks, except in the case of the Fisheries Improve-
10 ment Loans Act, where credit unions were admitted,
11 and your section quotes the words of the Minister
12 explaining why that was done in that case.

13 If we take for granted that the gaps
14 still exist; sufficiently in the various areas to
15 continue this sort of system, would there be any
16 objections in principle to administering other
17 lenders besides the banks, or is it mostly
18 a matter of administration rather than a matter of
19 principle?

20 MR. TAYLOR: As the then Minister
21 said, in the case of the Fisheries Improvement Loans
22 Act, there were quite a number of these areas, out-
23 ports, and so on, where there was a very limited
24 number of chartered banks within manageable range
25 and where the fishermen were actively associated
26 with their credit unions. For that reason the
27 credit unions were included in the Fisheries
28 Improvement Loans Act.

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MR. TAYLOR: As the Minister

said, in the case of the Fisheries Improvement Loans Act, there were quite a number of these areas, out-ports, and so on, where there was a very limited number of chartered areas with a negligible number and where the fishermen were actively associated with their credit unions. For that reason the credit unions were included in the Fisheries Improvement Loans Act.



1 The Farm Improvement Loans Act, which was passed
2 in 1944, referred to chartered banks only and all
3 I can say is there obviously have been not sufficient
4 representations from other members to persuade
5 the government to include credit unions, the Caisse
6 Populaire, and so on, in the Farm Improvement Loans
7 Act.

8 COMMISSIONER LEMAN: The point of
9 my question is do you believe, sir, that administratively
10 it would be too complicated if you had too many
11 lenders admitted to this kind of business in view
12 of the administration?

13 MR. TAYLOR: It would add very
14 substantially to the administrative operations
15 and expenses.

16 COMMISSIONER LEMAN: Going back to
17 Section 3, now, on the discussion of management,
18 I gather that over the years there have been repre-
19 sentations made to the government by the chartered
20 banks about the amount of compensation they would
21 feel entitled to or the amount of work or services
22 which they give the federal government in handling
23 the banking.

24 Is the position of the government on
25 this score basically that it is giving the banks
26 sufficient compensation through the amount of
27 deposits kept with them?

28 MR. TAYLOR: Well, I don't think that
29 is the argument at all; I think the argument is that
30 the banks shall make no charges on government cheques

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in 1911, referred to chartered banks only and all

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MR. TAYLOR: Well, I don't think that

is the argument at all; I think the argument is that



1 and government operations, government deposits.

2 COMMISSIONER LEMAN: So, it is a matter
3 of principle rather than a feeling by the govern-
4 ment that through the amount of deposits now kept
5 with the banks that they are being compensated
6 sufficiently, is that it?

7 MR. TAYLOR: I wouldn't say that
8 is the argument, no; I would just say that this
9 has been in the statute all along and I am not sure
10 the government -- I don't know what their future
11 decisions will be, but we have always taken the view
12 that the chartered banks, being chartered by the
13 federal government, shall make no charge.

14 Mr. Balls, you are more familiar with
15 this than I am.

16 MR. BALLS: I could just add that
17 parliament has said this not just in one act, but
18 in two. There is a provision in the Bank Act which
19 prohibits the bank from making a charge, and there
20 is also a provision in the Financial Administration
21 Act which requires that no bank shall make a charge
22 for cashing a cheque drawn in favour of the Receiver
23 General, or a charge for cashing a cheque drawn on
24 the Receiver General. I don't think, as Mr. Taylor
25 has said, that there has ever been any indication
26 interest free
27 that any/balance which is maintained by the chartered
banks is a quid pro quo for the services rendered.

28 COMMISSIONER BROWN: There is one point
29 in this connection which I would like to get a
30 little clarification on. On page 44 you refer to the



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the government -- I don't know what their future
decisions will be, but we have always taken the view
that the chartered banks, being chartered by the
federal government, shall make no change.

MR. POLLE, you are more familiar with

this than I am.

MR. POLLE: I could just add that

Parliament has said this not just in one act, but
in two. There is a provision in the Bank Act which
prohibits the bank from making a charge, and there
is also a provision in the Financial Administration
Act which requires that no bank shall make a charge
for cashing a cheque drawn in favour of the Receiver
General, or a charge for cashing a cheque drawn on
the Receiver General. I don't think, as Mr. Taylor
has said, that there has ever been any indication
that any balance which is maintained by the chartered
banks is a debt due for the services rendered.

COMMISSIONER BROWN: There is one point

in this connection which I would like to get a
little clarification on. On page 44 you refer to the



1 cash adjustments that are made following the delivery
2 of a bond issue, and then you mention that on
3 November 1, 1962, the redeposit feature became
4 applicable only to Canada Savings Bond proceeds.
5 Then, what happens on the ordinary bond deliveries;
6 is there an adjustment coming or is there no adjust-
7 ment made?

8 MR. BALLS: The arrangement was to
9 instead of redepositing with the chartered banks, the
10 proceeds would flow into our accounts in the normal way
11 and would
12 / be allocated immediately on the basis of the formula
13 percentage allocation.

14 COMMISSIONER BROWN: It wasn't clear
15 from this sentence what was happening after the
16 first of November.

17 THE CHAIRMAN: We will adjourn now
18 until 9.15 tomorrow morning.

19
20 ---Adjournment.

21
22 (Page 7406 follows)
23
24
25
26
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and would be allocated immediately on the basis of the formula
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COMMISSIONER BROWN: It wasn't clear
from this sentence what was happening after the
start of November.
THE CHAIRMAN: We will adjourn now
until 9:15 tomorrow morning.

(The record follows)



Ottawa, Ontario,
Tuesday,
January 8, 1963.

--- At 9.15 A.M. the hearing resumed.

THE CHAIRMAN: I will call the meeting
to order.

COMMISSIONER MACKINTOSH: Mr. Chairman,
I should like to raise some points, or perhaps
rather invite some discussion on matters concerned
with the paper on international financial relations.
I wonder if one of you would care to talk about the
problem of international liquidity, Mr. Taylor?
This is, I would judge, of extreme importance to
a country with so open an economy as Canada. There
have been a number of moves which, as it were,
mobilized international liquidity. One of the bases
was the shrinking in the deficit in the United
States balance of payments. If you could throw
some light on the problems and prospects there, it
would be certainly helpful to me and I think to my
colleagues.

MR. TAYLOR: May I suggest that Mr.
Plumptre make these comments.

MR. PLUMPTRE: Thank you. First of all,
let me say how much I agree with you, Dr. Mackintosh,
that problems of world liquidity are very much
of interest to Canada. No country with as large
an aggregate per capita^{trade} and no country with as
large a mobile international investment situation,
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1 is not enough international liquidity to look after
2 the growing needs.

3 Moreover, I should add that the two
4 countries with which our trading interests and our
5 financial interests are overwhelmingly the greatest,
6 the United Kingdom and the United States, are, of
7 course, also the countries which have so-called
8 reserve currencies which are therefore the most
9 susceptible to possible inadequacies of world
10 liquidity, and which are therefore most likely to
11 get into difficulties if liquidity is insufficient,
12 and their difficulties cannot but be reflected back
13 on their main trading partners and financial
14 associates, high amongst the list of which is, of
15 course, this country. So, there is no question about
16 the importance of the subject to us.

17 In the inter-war period, as the note
18 which we have before you, the last of the papers
19 in this blue volume, shows -- in the inter-war
20 period there was considerable difficulty in inter-
21 national exchanges related both to international
22 trade and international capital movements. It
23 was in response to the inadequacies of the inter-
24 war period that certain institutions, notably the
25 International Monetary Fund, were set up.

26 It would be presumptuous of me, Dr.
27 Mackintosh, to tell you, who at Bretton Woods was
28 chairman of the most important single committee --
29 it would certainly be presumptuous of me to tell
30 you how important the International Monetary Fund was

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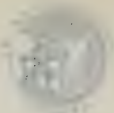
1 considered to be at the time that it was set up.

2 It was to be the mobilizer of international
3 liquidity. It was to insure, or it was to attempt
4 to insure, that there were temporary credits, drawings,
5 as they are called in the Fund language, available
6 to countries under, of course, appropriate conditions
7 and restrictions, but available to countries which
8 found themselves confronted by heavy pressures on
9 their exchange rates.

10 It was hoped chiefly through the mechanism
11 of the International Monetary Fund to protect world
12 currencies and world trading arrangements from the
13 sort of internecine warfare and the sort of
14 anarchy which was prevalent in the thirties and which,
15 partly as cause and partly as effect, contributed
16 to the great world depression of those years.

17 The history of the International Monetary
18 Fund has been somewhat a checkered one. You will
19 remember in the period beginning about 1947,
20 after it had been in existence only a year or two,
21 its functions as regards the main trading countries
22 were in a sense taken over by the Marshall Plan.

23 The problems of reconstruction of Europe
24 were financially so enormous that an organization
25 such as the Fund, which was set up to provide
26 temporary short-term liquidity in relatively moderate
27 amounts, was clearly not the organization to pro-
28 vide massive aid in regard to reconstruction, and
29 even its twin organization, the World Bank, was not
30 financially of a size or of an experience to assist



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1 in a major way. Therefore, the operations of the
2 Fund were, as it were, temporarily and largely super-
3 seded by the operations of the Marshall Plan. However,
4 by the middle of the 1950's, the Fund had re-emerged
5 as an important institution. I think it is true to
6 say that it has really gone on from strength to strength
7 since that time and is now regarded by all the major
8 world countries, both trading countries and financial
9 countries, as an essential instrument in the maintenance
10 of orderly relations and in the maintenance of law
11 and order in the field of trade and payments.

12 I should, of course, just add that the
13 Fund and, indeed, the World Bank, its twin, were two
14 of a family of institutions established immediately
15 after World War II. Others had other responsibilities
16 in the economic field, notably, of course, the General
17 Agreement on Tariffs and Trade, the agricultural
18 organization, ^{the} /international air organization, and
19 others, but from the point of view of a world trading
20 country such as Canada, the Fund and GATT were the
21 two most important organizations which we had to
22 attempt to protect our interests against, as I say,
23 the chaotic conditions which were prevalent in the
24 1930's.

25 Late in the 1950's it became evident, it
26 was generally agreed, that the resources of the Fund
27 were not adequate to the tasks which seemed likely
28 to lie ahead of it, and thus some two years ago,
29 with unanimous agreement amongst the membership of
30 the Fund I think, there was an increase by 50 per cent

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1 in its resources.

2 All countries, including Canada, contributed
3 an additional 50 per cent over and above their original
4 contribution. Details of these contributions appear
5 in the paper which we have submitted to you.

6 It might be said that the increase in
7 what one might call the normal resources of the Fund
8 was attuned to the growing need for one type of world
9 liquidity. That was the growing need for liquidity
10 related to the growth of trade. I am not suggesting
11 that liquidity necessarily has to grow step by step
12 exactly equal to a growth of trade. As we well know,
13 it is quite possible to have in any monetary situation
14 a growth of money or liquidity in various forms which
15 either falls somewhat short of or somewhat exceeds the
16 growth of need for financing of trading operations.
17 This is an accepted and an acceptable view, I think, to
18 monetary economists nowadays around the world.

19 In general it was recognized by the
20 late 1950's that the order of magnitude agreed upon
21 at Bretton Woods was not adequate for the trading
22 needs of the world as it had emerged, and it was
23 their judgment that an increase of 50 per cent over
24 and above what was agreed upon at Bretton Woods should
25 for the approximate future at any rate, meet the
26 needs of the situation.

27 The need for finance for trade, however,
28 is not the only need, as we know, for liquidity, and
29 it so happened that the enlargement of the Fund's
30 resources to meet, as we might say, the needs of trade,



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1 virtually coincided with a major financial move in
2 major financial countries of the world; that is to say,
3 a move to convertibility on the part of the major
4 European countries, and most notably the United
5 Kingdom which, of course, is the heart of the sterling
6 area. In discussing the emergence of the convertibility
7 of the major currencies, I should say the "large measure
8 of convertibility" in the case of the major currencies,
9 because all of them, apart from United States, retained
10 a certain type of control over capital movements
11 or a certain registration if not control of capital
12 movements, but by and large the movement of capital
13 can be described as becoming much freer with the ad-
14 vent of convertibility. In this connection a new
15 demand, a new and enlarged demand for liquidity emerged.

16 This was a demand for liquidity which
17 clearly related not to the membership of the Fund
18 as a whole but to a certain group of the members
19 of the Fund, the members of the Fund amongst which
20 important capital movements were likely to take place
21 on short notice, on short order. It would have been
22 quite unreasonable to invite the small and less well-
23 to-do members of the International Monetary Fund to
24 contribute to a further enlargement of its resources,
25 and it must be remembered that in any general increase
26 of Fund resources all members are required to put up
27 a certain amount of gold as well as non-interest bearing
28 notes in their currency, which may not be drawn upon
29 and may not therefore cost them anything; but it would
30 cost them all something in gold.



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1 It would be unfair and undesirable to
2 call upon the countries of Latin America, Asia and
3 Africa to put up gold in order to make capital move-
4 ments between the United Kingdom and the United States
5 more secure, and in order to put a firmer base under
6 the main exchange rates of the world. Hence, it came
7 about that just over a year ago meetings were held
8 amongst ten, indeed, eleven, major countries, looking
9 towards some supplementary arrangements. I say, "ten,
10 indeed eleven" because ten of them were members of
11 the Fund and one was not, that is Switzerland.

12 Shortly after that, just a year ago
13 today perhaps, the Minister of Finance of Canada
14 announced, along with announcements in other countries,
15 that Canada, along with nine other members of the Fund,
16 was participating in an arrangement to provide supple-
17 mentary resources to the International Monetary Fund,
18 if these were needed in case of a challenge or a de-
19 rangement, real or anticipated, of world currency
20 arrangements.

21 What the group had in mind, of course,
22 was the sort of thing which had happened in the previous
23 summer when sterling came under very heavy challenge
24 and when temporary ad hoc arrangements were made by
25 a group of central banks, that were later reinforced
26 by a very large Fund drawing by the United Kingdom,
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1 to meet the needs for world liquidity under a regime
2 of convertibility in which there were massive movements
3 of capital of one form or another moving between
4 important financial centres.

5 The special arrangements, supplementary
6 arrangements, for providing additional resources for
7 the Fund in such situations are public property. I
8 assume they are on file with the Royal Commission, and
9 if they are not we could, of course, provide them.

10 They consist essentially of a Fund decision and an
11 exchange of letters between the ten finance ministers.
12 I should add that last month it was announced that
13 Switzerland, when it could get the necessary legis-
14 lative authority, would also be adhering in somewhat
15 modified form, of course, since it is not a member of
16 the Fund, to this agreement.

17 The agreement, without Switzerland,
18 represented a total contingent obligation of \$6 billion
19 rather
20 or/a contingent obligation equivalent to \$6 billion
21 because the various undertakings are in forms of national
22 currencies; with Switzerland in, it will be the equivalent
23 of \$6,200 million.

24 It has been said, and I think with truth,
25 that this standby arrangement, for that is indeed what
26 it is, only comes into operation when some country
27 goes to the managing director of the Fund with demands
28 on the Fund which appear to run beyond the resources of
29 the Fund, and then

30 the managing director of the Fund draws together
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to see the world in a different light.

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1 vivendi for contributions to meet the needs of the Fund.

2 This standby arrangement, as it has been
3 has already said, played an important role in world monetary arrange-
4 ments. This is something which each one of us will reach
5 his own judgment upon, but it is suggested that if this
6 arrangement, plus certain other supplementary arrange-
7 ments which I shall mention in a moment, had not been in
8 existence at the time of the Cuban crisis, there would
9 most likely have been a disturbance to international
10 exchanges which, in fact, took the Cuban crisis entirely
11 in their stride with scarcely a flutter; and it is, I
12 think, for us to ask ourselves whether in the absence
13 of this new masse de manoeuvre available to the inter-
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1 For, of course, the capital movements that take place
2 in crisis conditions are those that respond not merely
3 to spreads of interest rates, but those which respond
4 to expectations that there may be a move in the exchange
5 rates, in the parities of exchange rates forced by the very
6 capital movements that are anticipated.

7 So, as I say, I believe one must reach one's own
8 judgment, but it is widely believed that the existence
9 of this arrangement has already played its part.

10 Indeed, it is quite clear from announcements made in
11 this country and elsewhere, that everyone will be happiest
12 if this arrangement is never actually made

13 use of. Its existence is like an insurance policy;

14 you hope it will never have to be called upon.

15 Its importance lies in the fact that it is so massive and
16 it is intended to convince those who might otherwise
17 be disposed to speculate on a movement of exchange rates
18 that such is not likely to happen; at any rate, within
19 the framework of such an emergency as the Cuban crisis.

20 I said that I would refer to certain
21 supplementary arrangements which have come into force
22 in the last year or two. They are in all cases, I think,
23 related in a way to initiatives by the United States
24 administration, but I have heard it said by high officials
25 in the United States administration that, in fact, much
26 of the initiative did come from the other side of the
27 Atlantic or, at least, it was common initiative and
28 certainly in the discussions in which I have been able to
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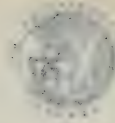
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1 in one particular direction or any grudging resentful-
2 ness or recalcitrance on the other side. It is clear
3 in my mind that the arrangements which have emerged
4 have been mutually satisfactory, and perhaps in such
5 arrangements it is necessary to know where the germ
6 of origin in fact does lie.

7 Now, the arrangements to which I refer are
8 well known, although I must admit that I myself am not
9 sufficiently technically competent to discuss them in
10 great detail. The general outlines are quite under-
11 standable and readily describeable.

12 There are, as I say, three of them. One has
13 been in relation to the London gold market. As you are
14 well aware one of the evidences of fright or flight
15 regarding the United States dollar has normally focussed
16 on the London gold market because people think that --
17 and probably rightly -- if there was an exchange value
18 with the United States dollar that that would inevitably
19 result not in merely a change in the United States dollar,
20 vis-a-vis gold, but in the change of all other currencies;
21 there would be a general movement of gold prices and
22 therefore any fright or flight regarding the United
23 States dollar tends to become visible on the London gold
24 market, amongst other places, and the price of gold tends
25 to be driven up. Gold is sucked out of central bank
26 reserves and tends to go to private hoardings, and this
27 is the eventuality which, of course, is disturbing and
28 the higher the price of gold goes in London the more the
29 fright and flight, which is represented in that
30 movement of price, tends to aggravate the situation.



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market, amongst other places, and the price of gold tends
to be driven up. Gold is sucked out of central bank
reserves and tends to go to private hoardings, and this
is the eventually which, of course, is disturbing and
the higher the price of gold goes in London the more the
flight and flight which is represented in that
movement of price, tends to aggravate the situation.



As you know, a certain group of central banks decided that they would attempt -- and I think they have in large measure successfully attempted since that time -- to moderate the movements of the gold price in London by the simple device of making gold available for disposal on that market in substantial amounts to hold the price from moving about to an unreasonable and speculative degree.

The second field in which operations have in the last year or so been initiated relates to the futures markets. As you are well aware, movements of funds from one country to another under normal conditions takes place in large measure -- and I am now talking about short term mobile funds rather than so-called investment funds -- movements of funds takes place in large measure between financial centers because the net yields, by and large indicated by the relative interest rates in the two areas, diverge and certain persons find it profitable to move funds from A to B because the yield in B is higher, or to hold funds in B which they otherwise would have moved to A because they find it more lucrative to hold them there.

However, insofar as this movement represents any abnormality in the position of the financial institutions or other institutions which engage in it, they usually wish to cover through the forward exchange market, and therefore the cost of purchasing forward exchange to cover the movement at the time when the original short term movement is going to reverse itself, the cost of acquiring that forward



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1 currency is an element in the lucrativeness or other-
2 wise of the operation. It has become, I think,
3 evident that it is, in many cases more
4 expedient and more practicable for the authorities in
5 a particular country, if they wish to re-restrain or hold
6 back a movement of funds from A to B, not to operate
7 so much on relative interest rates (which may be de-
8 termined by other factors or which the authorities may
9 not want for one reason or another, domestic or
10 international, to move) but rather it becomes expedient and
11 practicable to diminish the profitability of the move-
12 ment of funds from A to B by operations by the authori-
13 ties in the forward exchange market.

14 The forward exchange market is, by and large,
15 a narrower market than the spot market, and the spot
16 market exchange itself is normally,

17
18 I suppose, narrower than what you might call a general
19 financial market forming the interest rates structure
20 of a particular country. So, naturally, the authorities
21 will want to operate on the most susceptible element
22 in the situation which will discourage the temporary
23 movement of capital, and it has emerged in the last
24 year or two that the most susceptible point, or one of
25 the more susceptible points, is the forward exchange
26 market.

27 The third area, and I mentioned that I was
28 going to mention three additional areas of operations
29 supporting the additional general liquidity between
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1 the third area is the arrangements between national
2 monetary authorities , known as emergency "swaps" or
3 emergency exchanges , whereby the central banks or monetary
4 authorities of one country either borrow direct from
5 another country or, as has been most common, enter into
6 a reciprocal short term arrangement.

7 That is to say, the central bank, let us say,
8 of country A undertakes to credit the central bank of
9 country B with, let us say, \$100 million worth of its
10 currency if the central bank in country B will do like-
11 wise, and thereby each central bank or each monetary
12 authority in the two countries comes into possession of
13 additional liquid resources which it can use if necessary
14 to protect the exchange rate for the future.

15 It has been suggested that these reciprocal
16 swap arrangements between central banks is the greatest
17 invention since the wheel because, as you can see,
18 under an uncontrolled system they could go on indefinitely!

19 When you start from the proposition that the
20 central bank in each country is the source and creator
21 of money, of legal tender currency or central bank
22 deposits, you can see that there are considerable
23 possibilities for this sort of operation.

24 Obviously, it follows from that that there
25 need be no liquidity shortage if the authorities of
26 the several major countries decide that there should
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28 The issue is not whether liquidity can be
29 created, but the issue is under what circumstances
30 and in what ways and under what controls and restrictions



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1 should international liquidity be created, and my own
2 belief is that these reciprocal currency arrangements,
3 while valuable in emergencies between two countries or
4 groups of countries, are really not one that fits too
5 well into the world trade arrangements and into the
6 world financial arrangements today.

7 My own belief is that multilateral arrange-
8 ments, whether amongst all members of the Fund or
9 whether amongst only those members of the Fund affected,
10 such as the group of ten or eleven to which I referred,
11 are preferable to the purely bilateral or bilaterally
12 initiated arrangements.

13 Well, Mr. Chairman, perhaps I have gone far
14 beyond what Dr. Mackintosh wanted and perhaps I had
15 better stop at this stage to see whether there are any
16 further directions in which this discussion ought to
17 be pursued.

18 COMMISSIONER MACKINTOSH: That is what I
19 wanted and it has been very helpful. I don't know
20 that I have any other questions on that area.

21 COMMISSIONER GIBSON: I might ask one question.
22 What is the limitation of this reciprocal arrangement
23 between central banks in providing each other's currency?
24 Doesn't it mean that this is all right so long as they
25 are moving reasonably well in step and that this country
26 isn't inflating more than this other country or deflating
27 more than this major country. In other words, don't
28 their basic economic policies have to be reasonably
29 in tune if such large transfers are going to be
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1 MR. PLUMPTRE: Yes, I agree, and that is why
2 I suggested at the end of my remarks that it is preferable
3 to have some sort of international understanding arrange-
4 ments or agreements evolved regarding the establishment
5 of reciprocal -- even bilateral -- currency arrange-
6 ments, than to allow them to go entirely on a bilateral
7 basis.

8 I do agree with you, of course, that bilateral
9 arrangements run up against their own checks. in the
10 multilateral field -- perhaps I should put it this way,
11 Mr. Gibson; the existence of bilateral two-country
12 arrangements would make it possible for a pair of
13 countries, as opposed to a single country, to get out
14 of step with the rest, and that, of course, when you
15 think of the type of countries that are involved here,
16 can have fairly wide range implications.

17 COMMISSIONER GIBSON: If one of the two
18 countries were pursuing basic economic policies which
19 were getting its economy more out of line with the rest
20 of the world, presumably the other country would in
21 time say, "Well, this is as far as you go".

22
23 MR. PLUMPTRE: Yes.

24 COMMISSIONER GIBSON: You could have a worse
25 situation than you have at the beginning.

26 MR. PLUMPTRE: That is possible, yes; I agree
27 with that.

28 THE CHAIRMAN: When one country loans
29 to another in the manner that you have described, is
30 interest paid on loans of that kind?



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1 MR. PLUMPTRE: As far as my knowledge goes,
2 when a reciprocal currency arrangement is made no
3 interest is paid because each monetary authority comes
4 into possession of funds in the other, and to the best
5 of my knowledge and belief (which is not too comprehensive)
6 usually in these circumstances authorities do not
7 try to say, "Well, in my country rates and interests are a
8 little higher than in yours and therefore there ought to
9 be some payment of interest". Usually I think there is
10 no interest, but where on the other hand the country
11 simply borrows and it is not a reciprocal arrangement,
12 there would be interest paid.

13 THE CHAIRMAN: You mentioned the London
14 gold market. Are there other gold markets of any
15 importance?

16 MR. PLUMPTRE: I don't think there are of any
17 importance. I am not an expert on gold, but I don't
18 think there are of any importance.

19 THE CHAIRMAN: And is the price of gold
20 on the market substantially higher than the fixed price?

21 MR. PLUMPTRE: The price of gold on the market
22 is normally -- except when there is what you might call
23 an exchange scare, a fear that there is going to be a
24 change in the price of a major currency -- will be within
25 what I might call the gold limits set by the spread
26 allowed by the International Monetary Fund, the one per
27 cent spread on each side of par which is allowed each
28 currency.

29 In other words, it will be within a price
30 based on the assumption that the price of gold is not



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Nethercut & Young

Toronto, Ontario

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1 going to be changed in any basic currency, that the
2 basic price of gold is going to continue fixed and that
3 the only spread emerges from movements on the exchange
4 rates within the one per cent limit; in other words,
5 a very narrow limit.



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1 THE CHAIRMAN: That applies to the market
2 in London?

3 MR. PLUMPTRE: Yes.

4 THE CHAIRMAN: That is not quite a free
5 market?

6 MR. PLUMPTRE: Yes, it is a free market but
7 responsive to certain other fixed prices. It is a
8 free market responsive to the fact that the price of
9 gold in major countries is fixed under the Fund Agreement,
10 and the exchange rates between those major currencies
11 is limited under those agreements.

12 THE CHAIRMAN: In Canada the supply of gold
13 is held by the Department of Finance, is it not?

14 MR. TAYLOR: Yes, the Exchange Fund comes under
15 the Minister of Finance, and a substantial portion of it
16 is in gold.

17 THE CHAIRMAN: The gold at one time amounted to
18 about \$1 billion. Is it a fair question to ask you what
19 it amounts to now?

20 MR. TAYLOR: We announce the amount at the
21 end of each month. It is published early in each month
22 in the Canada Gazette, and it is printed in the Bank of
23 Canada's statistical summary. For example, in the last eight
24 years the highest amount of gold was a little over
25 \$1,100,000,000, and it dropped down to about \$670 million
26 last summer, and it is now back up to over \$700 million.

27 THE CHAIRMAN: Does the government continue
28 to buy gold as it is produced? To what extent does the
29 government buy gold?

30 MR. TAYLOR: Under the Emergency Gold Mining



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1 Assistance Act, a copy of which is amongst these
2 documents, any mine that elects to come under the
3 Emergency Gold Mining Assistance Act must turn over its
4 entire output of gold to the Royal Canadian Mint for
5 refining. It is paid the equivalent price of thirty-
6 five United States dollars, and that gold is taken over
7 by the Minister of Finance and made part of our Exchange
8 Fund, and it is held in our vaults.

9 I think we have been buying about \$100 million
10 a year, or something like that. It varies, since some
11 mines elect to put their gold into the open market. If
12 they do they may get \$35.03 or \$35.06, but it is their
13 option. We do not buy all the gold that is produced in
14 Canada, but we buy a large part of it, and we will, of
15 course, buy all that is offered to us.

16 THE CHAIRMAN: Well, there is some advantage
17 in having a considerable stock of gold, is there not --
18 or, is there?

19 MR. TAYLOR: The Exchange Fund, as you know,
20 consists of a major fraction of gold and a major
21 fraction of what is labelled United States dollars.
22 The United States dollars are, of course, held in the
23 form of short term United States paper, treasury bills,
24 short term notes and so on, on which interest is earned.
25 The profits, or the interest earnings, of the Exchange
26 Fund in recent years have been between \$30 million and
27 \$35 million a year -- that is the interest earned on
28 the \$1.25 billion of United States dollars we hold in
29 the form of the United States bills and notes of various
30 sorts.



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1 THE CHAIRMAN: At the time of the Exchange
2 crisis would not a volume of gold have been of advantage?
3 Is it not sometimes possibly of greater advantage than
4 the holding of foreign currency.

5 MR. TAYLOR: That would depend upon the
6 international attitude towards United States dollars.

7 THE CHAIRMAN: Yes, that may change at any
8 time.

9 MR. PLUMPTRE: May I comment on that from the
10 international point of view?

11 MR. TAYLOR: Yes.

12 MR. PLUMPTRE: In the possession of every
13 country or every monetary authority, whether it happens
14 to be the central bank in the country or the Exchange
15 Fund in a country like ours under the responsibility
16 of the government, there is a question, of course, as
17 to whether to hold the reserves in an earning or a non-
18 earning form. As Mr. Taylor has pointed out we, in
19 Canada, normally hold something like a half or just over
20 a half of our reserves in an earning form -- that is to
21 say, in the form of United States dollars invested --
22 and around a half in the non-earning form of gold.
23 Different countries have different proportions, and I
24 think that certain countries -- certain countries of,
25 let us say, the sterling area -- have become accustomed
26 to holding the greater bulk of their reserves -- and
27 perhaps I am referring to the other dominions, if I
28 can so call them in these days, than Canada -- in the
29 form of earning assets, which is to say short term
30 assets in London, and the rest in gold. Certain other



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assets in fact, and the fact is that, therefore,



1 countries such as the United Kingdom itself, as befits,
2 perhaps, a country with a reserve currency, as sterling
3 is, has held a very high proportion in the form of gold.

4 THE CHAIRMAN: A higher proportion than Canada?

5 MR. PLUMPTRE: Yes, much higher. It is
6 virtually 100 per cent.

7 THE CHAIRMAN: That is the United Kingdom?

8 MR. PLUMPTRE: Yes.

9 THE CHAIRMAN: What is the reason for that?

10 MR. PLUMPTRE: I was just going on to say
11 that it is partly responsive to needs and partly respon-
12 sive to custom in several countries. It is the sort of
13 thing one does not change quickly and lightly because
14 people, perhaps unreasonably, get disturbed by these
15 things.

16 There is, I think, a feeling in international
17 circles that if one can avoid drawing gold away from
18 a country where financial opinion is sensitive to losses
19 of gold at a moment of sensitivity then one should do
20 so. That is useful in international terms.

21 In other words, there are in this field, as
22 in others, codes of good behaviour which have developed
23 gradually, and this is evident
24 in such discussions as I attend in various places --
25 for instance, Paris -- where representatives of various
26 countries when reporting that their international
27 reserves have gone up by a certain amount will

28 point out that the accretion has not been in
29 a form which makes it more difficult for other coun-
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1 temporary accommodation out of international helpfulness
2 in respect to the problems faced by other countries.

3 THE CHAIRMAN: Well, I would like to ask you
4 this question: We, of course, are a gold producing
5 company. We do not have to import gold. There is no
6 problem of obtaining some form of currency. It would
7 be of special advantage to us to have an increase in the
8 gold supply for several reasons, but for that reason --

9 MR. PLUMPTRE: May I try to answer that, and
10 if Mr. Taylor disagrees with what I say then he will
11 obviously say so. I would not have thought from our
12 point of view, or from the point of view of the
13 Canadian gold mines, that it would really make any
14 difference, because they can sell their gold and sell
15 it ---

16 THE CHAIRMAN: I was not thinking of the
17 position of the mines, but rather of the position of
18 the treasury. It would be of advantage to the treasury
19 to have an increasing supply of gold held to meet
20 emergencies, and I am referring to gold produced within
21 the country without the necessity of importing it.

22 MR. PLUMPTRE: Well, Mr. Chairman, you say
23 "without the necessity of importing it", but, of course,
24 if we accumulate it we forego the opportunity of
25 exporting it which helps our balance of payments, and
26 which, as Mr. Taylor has already pointed out,
27 increases our earnings from abroad. In this case they
28 run in the order of \$30 million a year which, from
29 the point of view of the treasury, is something that
30 should not be ignored.

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gold supply for several reasons, but for that reason --

MR. RIVINGTON: May I try to answer that, and

if Mr. Taylor disagrees with what I say then he will
obviously say so. I would not have thought from our
point of view, or from the point of view of the
Canadian gold mines, that it would really make any
difference, because they can sell their gold and sell

THE CHAIRMAN: I was not thinking of the

position of the mines, but rather of the position of
the treasury. It would be of advantage to the treasury
to have an increasing supply of gold held to meet

the country without the necessity of importing it.

MR. RIVINGTON: Well, Mr. Chairman, you say

"without the necessity of importing it," but, of course,
if we accumulate it we forego the opportunity of
exporting it which helps our balance of payments, and
which, as Mr. Taylor has already pointed out,

increases our earnings from abroad. In this case they

the point of view of the treasury, is something that



1 THE CHAIRMAN: I do not know whether I have
2 quite grasped that last point. Would you mind repeating
3 it?

4 MR. PLUMPTRE: If the Canadian exchange fund
5 instead of doing what it is doing at the present --
6 that is, simply buying all the gold that is offered --
7 attempted to increase, by what means I would not quite
8 know, the proportion of our newly mined gold which is
9 flowing in and at any moment held by the exchange fund,
10 then, insofar as we were successful in corralling that
11 additional gold, we would be diminishing the export of
12 gold, and in one way or another diminishing the Canadian
13 assets abroad which might be in the hands of the exchange
14 fund or which might be in somebody else's hands, but
15 which would be earning interest whether in the hands
16 of the exchange fund or not. That would, of course,
17 determine whether the government got the revenue, or
18 whether private parties got the revenue.

19 COMMISSIONER MACKINTOSH: Except for the
20 fixed price the gold is not significant. If you
21 accumulate any foreign reserves by getting an excess
22 of foreign credits over foreign debits, then whether
23 you use gold as the item of switch or various other
24 items, does not make any fundamental difference.
25 However, it is convenient in that it has a known fixed
26 price, and it can be switched more easily than wheat
27 sometimes can.

28 MR. PLUMPTRE: That is right.

29 COMMISSIONER GIBSON: Mr. Plumptre, would
30 you care to say anything about the applicability and



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COMMISSIONER MONTAGNA: I am
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1 potential usefulness of these developing techniques
2 from the Canadian point of view? You mentioned
3 particularly the reciprocal currency arrangements and
4 the forward exchange operations. Are these of useful
5 application from our particular point of view.

6 MR. PLUMPTRE: As has been announced in
7 relationship to the problems which emerged last
8 June -- as the Prime Minister announced, and as the
9 Governor of the Bank of Canada announced simultaneously,
10 on June 24 -- reciprocal arrangements were entered into
11 by the Bank of Canada. I think also any monetary
12 authority or financial authority faced with the sort
13 of difficulties that emerged in Canada at that time
14 would make use of exchange futures operations, but
15 that is something which the Minister of Finance has
16 under his jurisdiction. I understand that there has
17 been a question in the House asking for figures on
18 the exchange operations during that period, and as and
19 when those are made available they will, of course, be
20 available to the commission. I would not be in a
21 position to give details of that at this time.

22 THE CHAIRMAN: What is the reason for the
23 Monetary Fund's insisting upon a certain portion of
24 their reserves being in gold? Why do they need gold
25 at all?

26 MR. PLUMPTRE: Do you mean: Why does the
27 Fund, when countries make contributions to it, insist
28 under its regulations that part should be in gold?

29 THE CHAIRMAN: Yes.

30 MR. PLUMPTRE: Of course, it was Dr.



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THE CHAIRMAN: Yes.

MR. PLUMPTRE: Of course, it was Dr.



1 Mackintosh who dreamed that up, and far be it for me
2 to comment upon it! However, I think the answer has
3 already emerged, has it not, Dr. Mackintosh? In all
4 the financial countries of the world gold is ultimately
5 acceptable. It is the ultimate acceptability of gold
6 that is important.

7 THE CHAIRMAN: Then, we should have more of
8 it.

9 MR. PLUMPTRE: Yes, I do not object to more
10 gold'.

11 COMMISSIONER MACKINTOSH: So far as the
12 Monetary Fund is concerned it is the completely inter-
13 changeable element in their resources. In other words,
14 if gold was not completely interchangeable, you would
15 have to say to a country that wants sterling: "we
16 have not very many pounds today, but we have some nice
17 Dutch guilders".

18 THE CHAIRMAN: Are there any further questions?

19 COMMISSIONER MACKINTOSH: I have no further
20 questions in this specific area, but I have something
21 else I would like to raise.

22 I was wondering if you could enlighten us
23 a bit on what implications -- I will not say in respect
24 to international planning, but in respect to the exchange
25 of international information and ideas -- OECD, and
26 that type of organization, has? Does this enable us
27 to see further into international areas than we other-
28 wise might?

29 MR. PLUMPTRE: I think the short answer to
30 that is: "Yes", but I would like to elaborate upon it.

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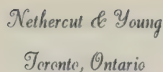
1 As I explained in relation to the International Monetary
2 Fund's mobilization of special resources recently, there
3 are certain issues and certain responsibilities that
4 belong to a certain type of country -- that is to say,
5 the industrially and financially advanced countries of
6 the world. They have certain interests in common. They
7 have certain outlooks in common, and certain respon-
8 sibilities in common, if the world is to run in a way
9 which all of them collectively consider desirable and,
10 perhaps I should say, peaceful.

11 The OECD is an approximation to an organization
12 which embodies the main industrilized countries of the
13 world, and, therefore, it is an organization in which
14 you can talk to a group of people whose problems and
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There are certain committee activities
of the O.E.C.D. of particular interest to this
Commission. There is an Economic Policy Committee,
and
There is also an Economic/Development Review Committee,
and under the Economic Policy Committee there are
two working parties to which reference is made here
on which I should like to speak very briefly.

The committees of the O.E.C.D. concern themselves with subjects of very active interest to Canada. . . . The subjects of most active interest to Canada are problems of growth and ability to absorb growing labour forces. These have represented our biggest challenge over the past few years, together with problems of trade exchange relationships.

If I may start at the bottom rather than at the top, one of the most interesting of the committees in the O.E.C.D. has been one of the two working parties to which I referred.: the working party on "growth". Officials of the Department of Finance and the Bank of Canada have gone to fairly frequent meetings during the past year of the so-called Growth Committee in Paris, and the Ministers' meeting last November decided to publish the preliminary report of the Growth Committee. I say preliminary, for it



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1 was a report partly backward looking and partly forward
2 looking and, as the Ministers noted discussing it around
3 the table last November, it suffered from certain
4 obvious deficiencies and inadequacies. Nevertheless,
5 they decided it was worth putting out to the world
6 to encourage a discussion in this area which is of
7 so very great importance to so many governments.

8 Here in Ottawa we have had opportunities
9 to discuss growth problems amongst ourselves. We
10 have participated even in certain round table dis-
11 cussions in certain neighbouring universities, Dr.
12 Mackintosh, on this subject, and this has been useful.
13 If it had not been for the O.E.C.D. we would not have
14 had the opportunity of having officials of the
15 Department of Finance and of the Bank of Canada meet
16 with others from similar institutions of the United
17 States and Europe, to compare notes and inter-change
18 ideas of what is happening and what should be happening.

19 It seems to me that this is an obvious
20 example of where the O.E.C.D. has lessons which
21 obviously would not have emerged in, let us say, forums
22 of the United Nations where you would get such diversity
23 of countries and such diversity of growth problems,
24 and probably demands from the more needy countries
25 that higher priority should be given to the study of
26 their issues, which the more well-to-do countries
27 would not want to resist; I do not think you will
28 ever get in an organization which is not largely con-
29 stricted to the type of country which I have mentioned,
30 a serious study of our type of problems.

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1 In another working party, one which has
2 had some public notice, there is active attention to
3 current problems of international payments and to
4 development of financial situations and policies in
5 the various countries. This is a group which in a
6 sense impinges upon the work of the International
7 Monetary Fund, for we are discussing financial
8 developments and international capital movements,
9 problems relating as they arise, to particular countries.

10 I think that, if the original Canadian concept
11 of the directors of the International Monetary Fund
12 had come to fruition, the discussions which are now
13 taking place in Paris would not have been as
14 necessary as I think they are.

15 As you will recall, Dr. Mackintosh,
16 it was the Canadian view that the executive directors
17 of the Fund, and also of the Bank, ought to be officials
18 from national capitals who would travel to Washington,
19 or wherever the seat might be, for meetings with other
20 officials who have responsibilities in capitals.
21 It was the view of people of other countries, which
22 later predominated, that by and large the executive
23 directors should be resident in Washington and give
24 full or virtually full time. Indeed, we are the
25 country which has departed from that general rule
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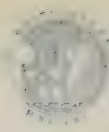
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2 London, Paris, Bonn and Rome, as well as from Ottawa,
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5 the O.E.C.D.

6 The second working party to which I
7 referred is made up of senior officials from treasuries
8 and central banks. I suppose it is right to des-
9 cribe them in most cases as being Man No. 2 or Man
10 No. 3 in each of the treasuries and central banks
11 concerned. They are not the very top people, but
12 the second, third or fourth top officials from each
13 of the treasuries and central banks in each of the
14 main countries. This provides, really, a very useful
15 up-to-date current exchange of views on what is
16 happening.

17 May I say here what Mr.
18 Fleming said, I think, in the Council of Ministers
19 in the O.E.C.D. last November, in relation
20 to our own situation in June last, where very quick
21 action was required in order to reestablish the
22 situation. Mr. Fleming expressed the opinion that
23 the fact senior officials in other countries had
24 a generally up-to-date -- I do not mean a week-to-
25 week or day-by-day up-to-date knowledge, but a
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1 COMMISSIONER MACKINTOSH: Thank you.

2 COMMISSIONER BROWN: I wonder if we
3 might ask Mr. Plumptre, Mr. Chairman, if these working
4 committees have come up to the satisfactory definition
5 of what is meant by "growth"? This seems to be a
6 very difficult definition with which to come to grips.

7 MR. PLUMPTRE: I hope the answer to
8 that is "no". I suppose I am allowed to say this,
9 and indeed I think I was one of the people on the
10 Economic Policy Committee, who, when the report of
11 the working party came up for consideration before
12 it was passed on to the ministers, expressed worry
13 because the report of the working party seemed to
14 define growth in terms of one index only, an index
15 of the growth of G.N.P. per capita.

16 This growth of G.N.P. per capita, while
17 it is an indication of growth, seems to me, as I
18 said in the committee, to be really pretty mechanistic,
19 and also pretty narrow.

20 I am not going to go into actual positions
21 but, if during a particular period there was great
22 promise of industrial expansion in country A and
23 an obvious expectation of continued stagnation in
24 country B, so that there was a mass migration from
25 country B to country A, but the growth which was
26 anticipated, the economic development, had not yet
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30 The movement of population, you see,

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2 diminish the per capita production, and this indeed
3 was imbedded in one of the main tables in the working
4 party report, and we got the tables title changed
5 somewhat to indicate that this was not the sole measure
6 of growth.

7 My own belief, expressed as a private
8 opinion, is that growth can be measured by a great
9 variety of statistics, but that really you have to
10 feel it to believe it, and that there are certain
11 periods in this country's history where, whatever
12 the statistics said, people at home and people abroad
13 knew that the country was developing rapidly and
14 robustly.

15 THE CHAIRMAN: They thought it was.
16 How did they know?

17 MR. PLUMPTRE: Mr. Chairman, I believe
18 that this is a sense which sensible people come to
19 with the aid of statistics, but not merely because
20 of statistics. In other words, I was referring only
21 to statistics but there is a lot of other evidence
22 in addition to statistical evidence which can be
23 adduced.

24 THE CHAIRMAN: Yes, but do you not have
25 to have some more or less definite idea in mind as
26 to what you mean by economic growth before you can
27 feel it? You are feeling what?

28 MR. PLUMPTRE: I am sorry. I did not
29 mean to say that statistics were not important, only
30 that they had to be interpreted in relation to what



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1 is going on.

2 THE CHAIRMAN: I am not talking about
3 statistics. We have heard a great deal in the last
4 few months about aims of monetary policy, and one
5 of them always has been put forward as economic
6 growth. There has been great controversies from
7 different sources about what that means, and I should
8 like to know what you had in mind as to that aim?
9 To have an aim you have to have some ideas as to
10 what you are heading for, do you not?

11 MR. PLUMPTRE: Yes, and obviously there
12 is a parcel or package of statistics that are basic
13 to interpreting what is going on. What I was referring
14 to is the use of that single, or even one or two
15 statistics, and I think, as one of the ministers in
16 the O.E.C.D. said, obviously the expansion of the
17 Gross National Product, however measured with what
18 statistical refinement can be done, is extremely
19 important, but one does want to know somehow whether
20 this expansion of activity is in fields which are of
21 the "eat, drink and be merry" type, or of the type
22 which, having regard particularly to an economy which
23 has to compete in world markets, is strengthening it.

24 This very often has to be a matter of
25 judgment, Mr. Chairman, because the future is un-
26 certain. You cannot be sure what things are
27 strengthening to an economy. You have to reach
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1 It may be that I am trespassing, Mr.
2 Taylor, on something you should be talking about.
3 We seem to have gone from international considerations
4 to something which obviously people here are thinking
5 about. I do not know whether I have trespassed.

6 MR. TAYLOR: No, it is all right. I
7 would point out, Mr. Chairman, that Mr. Plumptre
8 and Mr. Hockin have attended all the working party
9 committees at O.E.C.D.

10 MR. PLUMPTRE: Not quite all. Mr.
11 Hockin has taken one, I have taken another, and our
12 associate, Mr. Rubinoff, has taken the third.

13 COMMISSIONER GIBSON: I wondered
14 if you would be prepared to say anything about the
15 implications of a fixed exchange rate for debt
16 management policies, for interest rate policies,
17 for general economic policy, if you like?
18 What I am getting at is this. Does this imply a
19 more rapid rate of adjustment to international
20 developments? Does this put an emphasis on adjusting
21 our economy more effectively and more rapidly to
22 international developments?

23 MR. PLUMPTRE: I am afraid that question
24 is a little difficult to answer. I should have
25 thought that whatever the exchange rate policy,
26 let us say whether fixed or fluctuating, inter-
27 national considerations ought to be a very important
28 element in, if I can say so, monetary policy and
29 debt management policies, for to my way of thinking,
30 at any rate, a fluctuating rate, whatever its advantages

It may be that I am trespassing, Mr.

Mr. V., on something you should be talking about.

We seem to have gone from international considerations

to something which obviously people here are thinking

about. I do not know whether I have trespassed.

MR. VINTAGE: Yes, you have.

would point out, Mr. Chairman, that Mr. Rumboutre

and Mr. Hookin have attended all the working party

committees at O.E.C.D.

MR. VINTAGE: Yes, and Mr. R.

Hookin has taken one, I have taken another, and our

associate, Mr. Rumboutre, has taken the third.

COMMISSIONER GIBSON: I wondered

if you would be prepared to say anything about the

implications of a fixed exchange rate for debt

management policies, for interest rate policies,

for general economic policy, if you like?

What I am getting at is this. Does this imply a

more rapid rate of adjustment to international

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MR. RUMBOUTRE: I am afraid that question

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Let us say whether fixed or fluctuating, inter-

national considerations ought to be a very important

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debt management policies, not to my way of thinking.

MR. VINTAGE: Yes, and Mr. R.



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- 7441 -

Toronto, Ontario

1 or disadvantages, does not cut one off from the world
2 community.



1 It is just a form of relationship with the outside
2 world, and in my personal view the external situation,
3 the relationship to interest rates, let us say, insofar
4 as debt management can influence relationships between
5 rates at home and abroad in different sectors of the
6 market, this should be as much a concern under a floating
7 as under a fixed rate system.

8 Now, I am giving you a personal opinion on
9 this, but this would be my interpretation. There is,
10 I think, a belief that in some sense a floating rate
11 isolated us or might have isolated us from the inter-
12 national capital markets of the world outside,
13 but this has never been my personal conviction.

14 COMMISSIONER GIBSON: A view which we have
15 had put to us from some quarters is that it has been
16 an additional item of flexibility rather than isolating
17 us from international influences. We have heard that
18 suggestion, but more frequently ---

19 MR. PLUMPTRE: Nobody can deny the flexible
20 rate is flexible and the fixed rate is fixed.

21 COMMISSIONER GIBSON: But you would agree that
22 your interest rates have a very important job to perform?

23 MR. PLUMPTRE: You see, I would have said that
24 that was equally true under a floating rate.

25 COMMISSIONER GIBSON: Equally true?

26 MR. PLUMPTRE: I would have said so.

27 COMMISSIONER GIBSON: You don't really think
28 there is any more emphasis on a need for prompt
29 adjustment to external conditions with a fixed rate
30 than with a floating rate? I am not asking your views



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MR. PLUMPTRE: I would have said so.

COMMISSIONER GIBSON: You don't really think

there is any more emphasis on a need for prompt

adjustment to external conditions with a fixed rate

than with a floating rate? I am not asking your views



1 on the merits.

2 MR. PLUMPTRE: I understand that, Mr. Gibson.
3 Your use of the word "prompt" prompt me to agree with
4 you! I think that there must be a more prompt and more
5 immediate reaction. I think this may be impelled by
6 the change of system, I would agree with that, but not
7 in any more fundamental sense, I think.

8 COMMISSIONER MACKINTOSH: Actually, I think if
9 we assume that there is not latitude with great
10 fluctuations in your exchange fund.

11 MR. PLUMPTRE: Thank you, Dr. Mackintosh, for
12 bringing that out; that is exactly what I was assuming.

13 COMMISSIONER MACKINTOSH: You had an unlimited
14 exchange fund?

15 MR. PLUMPTRE: That is right.

16 COMMISSIONER MACKINTOSH: That could take up,
17 as it were, the fluctuations that otherwise would be
18 in the floating rate.

19 MR. PLUMPTRE: It was the limitation in that
20 direction which led me to agree; the assumption of a
21 limitation in that direction, which I think is a
22 required assumption.

23 COMMISSIONER GIBSON: It is a reasonable
24 assumption, but it is very expensive to have an unlimited
25 exchange fund.

26 MR. PLUMPTRE: Yes, it depends how you keep
27 it, as we were talking about, and that again depends on
28 interest rate spreads, how expensive it is.

29 COMMISSIONER GIBSON: You imply that there is
30 no reason why we shouldn't have a very much larger one?



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MR. PLUMPTRE: I understand that, and I agree.

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1 MR. PLUMPTRE: No, I was addressing a theoretical
2 question. People very often assume that the holding of
3 liquidity is a dead loss. Well, if you hold your
4 resources and invest them -- and Mr. Taylor explained
5 that we did -- you gain something on them, insofar as
6 the Treasury borrows that money in Canada and lends
7 it wherever an exchange fund is held. What is
8 relevant is the spread between the rate at which we
9 borrow in Canada and the rate at which we invest in
10 New York, and while for 364 days out of 365 no doubt
11 the rates up here, the short term rates, are higher
12 than in New York, there have been occasions when
13 the reverse has existed.

14 COMMISSIONER GIBSON: There is one other point,
15 Mr. Chairman, that I found very helpful, and perhaps
16 some of the other Commissioners might, too. Yesterday,
17 Mr. Taylor explained the sort of mechanical operating
18 arrangements as between the Department or the Minister
19 and the Bank of Canada with regard to debt management
20 policy.

21 Could you do the same with regard to foreign
22 exchange operations, give us a picture of how the
23 organizations work together?

24 MR. TAYLOR: The Minister of Finance holds
25 the exchange fund, but the Bank of Canada acts as the
26 agent for the Minister in handling the exchange fund.

27 The Minister of Finance is kept informed
28 of the general pattern of the investment of our
29 United States dollars in the exchange fund, but isn't
30 asked to approve from day to day or week to week



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1 exactly what the Bank of Canada does with the U.S.
2 dollar holdings. They work in collaboration with the
3 Federal reserve bank in New York and in that sense
4 they administer the day to day.

5 COMMISSIONER GIBSON: Do they work in
6 collaboration with officials of the Department of
7 Finance in this matter too, or is this an administrative
8 job they do themselves?

9 MR. TAYLOR: The officials of the Department
10 are probably informed on the exact details more
11 frequently than the Minister of Finance. We are in
12 touch with them almost every day and in some cases,
13 of course, if the exchange market is rather active we
14 are kept informed almost hour by hour as to just what
15 is going on in the exchange market.

16 The Bank of Canada, of course, does handle all
17 the buying and selling in the exchange funds and the
18 Minister and myself, of course, are informed daily at
19 the close of each day as to what the volume of business
20 in the day has been, and if the market is very active
21 I am frequently informed at noon or even on two or
22 three occasions during the day, but in that sense the
23 Bank of Canada does keep -- we do keep in very close
24 touch with them on the administrative mechanics of the
25 exchange fund.

26 Broadly speaking, we probably have more
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28 contact on the exchange fund than we have on the
29 bond market, unless the bond market is extremely
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matters

1 COMMISSIONER GIBSON: And when/of policy
2 are considered, do you have the same occasional meetings
3 of the kind you described with regard to debt management?

4 MR. TAYLOR: Yes, there are at least weekly
5 conversations between the Governor of the bank and the
6 Minister of Finance, and there are more than weekly
7 conversations between the Governor of the bank and my-
8 self, so there is a quite active interchange of
9 information. From time to time the Bank of Canada makes
10 suggestions or recommendations as to the particular
11 line of action which should be taken, and the Bank of
12 Canada requires that it get the Minister's approval.

13 THE CHAIRMAN: Then, that concludes
14 the discussion. We are very much obliged to you
15 gentlemen for your great assistance to us.

16 MR. TAYLOR: Perhaps I might say, again,
17 Mr. Chairman, that we found this a very useful session.

18 As I said in my opening remarks yesterday,
19 we shall do our best to supply the Commission with
20 any further information that they may request and which
21 is available.

22 Perhaps I should again repeat what I said at
23 the beginning of my remarks yesterday, that as
24 government officials it would not have been proper for
25 us to comment on government policy or government
26 prospects, and I will remind you that in the
27 Royal Commission in 1933, Dr. Clark declined to answer
28 questions relating to the merits of government policy,
29 and Lord MacMillan entirely agreed with him.

30 THE CHAIRMAN: I don't think there is any

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CONSTITUTIONAL AFFAIRS, AND SPECIAL POLICY
MATTERS



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- 7447 -

1 dispute about that. Sometimes we were not, perhaps,
2 aware to what extent our questions infringed upon
3 policy and how much they were related to administration.

4 We shall now adjourn until 9:15 tomorrow
5 morning when we shall receive the submission from the
6 Governor of the Bank of Canada.

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9 --- Adjournment.

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Governor of the Bank of Canada.

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Royal Commission on Banking and Finance

DEPARTMENT OF FINANCE

Hearings
held at
OTTAWA

Vol.
54A

*Report of the Commission
on the Bank of Montreal*

Date.
JAN. 7, 1963.



Official Reporters
J. J. Nethercut and R. J. Young
Toronto, Ont.



Nethercut & Young
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PAPERS SUBMITTED BY THE

DEPARTMENT OF FINANCE

TO THE

ROYAL COMMISSION ON BANKING AND FINANCE

November, 1962.

Ottawa.

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INTRODUCTION

The following nine papers have been compiled to be of assistance to the Royal Commission on Banking and Finance. These papers are primarily descriptive and analytical. They do not appraise policies nor do they make recommendations.

The first paper is a brief historical analysis of budgetary revenues and expenditures covering a thirty-six year period, from 1926-27 to 1961-62. This paper brings out clearly the tremendous changes in government activities and operations during the period of a single generation, and the continuing need for adaptation and co-ordination of government operations particularly as they affect the area of financial responsibility.

The next two papers describe the ways in which the Department of Finance operates as a financial centre. The first of these deals with the preparations for the annual budget. This gives a fairly detailed description of the appraisal of spending programmes and then describes the preparation of the consequential revenue programme. The second paper describes the cash management practices and procedures.

The fourth, fifth and sixth papers describe the many lending operations performed or sponsored by the Government. The first of these covers government-guaranteed loans made by the chartered banks, particularly those to farmers, fishermen and small businesses. The second explains the relationships of the Department of

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FINANCIAL POLICY

The next two papers describe the ways in which the Department of Finance operates as a financial entity. The first of these deals with the preparations for the annual budget. This gives a fairly detailed description of the process of preparing the budget and the various steps involved. The second paper describes the various procedures and procedures.

The fourth, fifth and sixth papers describe the many lending operations performed or sponsored by the Government. The first of these covers government-guaranteed loans made by the chartered banks, particularly those to farmers, fishermen and small businesses. The second explains the relationships of the Department of



1 Finance to other Departments and Agencies having special
2 financial responsibilities or operations. The third
3 describes the responsibilities of the Department of
4 Finance in relation to the financial positions of other
5 Crown Corporations and Agencies.

6 The seventh paper gives a fairly detailed
7 account of the Emergency Gold Mining Assistance Act.

8 The eighth paper explains the Department of
9 Finance relationships with provincial and municipal
10 governments.

11 The final paper describes the Department's
12 relations with other national governments and with
13 International Agencies.

14 In conclusion, it should be pointed out that
15 these papers are intended to cover ground of particular
16 interest to the Commission; they do not constitute a
17 complete description of the activities of the Department
18 of Finance. There are many important departmental
19 activities that are not covered. For example, in
20 describing "Relations with Other Departments" the
21 material is limited to those "Having Special Financial
22 Responsibilities." Again, the paper on departmental
23 international relations is confined to specific
24 financial matters; other responsibilities, for example,
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27 Ottawa,

28 November 19, 1962.

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I

BUDGETARY REVENUES AND EXPENDITURES
OF THE GOVERNMENT OF CANADA

This section consists of two parts. The first part surveys the overall growth of the budgetary revenues and expenditures of the government of Canada and their relationship to the gross national product for the fiscal years 1926-27 to 1961-62. In the second part, the main trends of the revenues and expenditures of the federal government for the same period are reviewed in greater detail.

Part 1

In 1926-27 the budgetary revenues of the government of Canada were \$401 million, the budgetary expenditures were \$359 million, and there was a surplus of \$42 million. In that year revenues were 8 per cent of the gross national product and expenditures were 7 per cent. In 1961-62 revenues amounted to \$5,730 million or 16 per cent of the gross national product, and expenditures amounted to \$6,521 million or 18 per cent of the gross national product.

During the thirty-six year period there were surpluses in thirteen years and deficits in twenty-three years. The net debt of Canada increased from \$2,348 million as of March 31, 1927, when it was 46 per cent of the gross national product, to \$13,228 million as of March 31, 1962 when it was 36 per cent of the gross national product.

BUDGETARY REVENUES AND EXPENDITURES OF THE GOVERNMENT OF CANADA

This section consists of two parts. The first part surveys the overall growth of the budgetary revenues and expenditures of the Government of Canada and their relationship to the gross national product for the fiscal years 1955-56 to 1961-62. In the second part, the main trends of the revenues and expenditures of the federal government for the same period are reviewed in greater detail.

Part I

In 1955-56 the budgetary revenues of the Government of Canada were \$401 million, the budgetary expenditures were \$350 million, and there was a surplus of \$49 million. In that year revenues were 8 per cent of the gross national product and expenditures were 7 per cent. In 1961-62 revenues amounted to \$5,730 million or 16 per cent of the gross national product, and expenditures amounted to \$6,751 million or 18 per cent of the gross national product.

During the thirty-six year period there were

years. The net debt of Canada increased from \$2,500 million as of March 31, 1957, when it was 45 per cent of the gross national product, to \$13,225 million as of March 31, 1962 when it was 36 per cent of the gross



1 Appendix I of this section sets out in
2 tabular form for the fiscal years 1926-27 to 1961-62
3 inclusive, the budgetary revenues, budgetary expenditures,
4 surplus or deficit, net debt, gross national product,
5 revenue, expenditure and net debt as a percentage of
6 the gross national product.

7 In order to indicate in a general way the trend
8 of revenues and expenditures during the period, the
9 following paragraphs present a brief review of the
10 trends in -

- 11 (a) the fiscal years 1926-27 to 1929-30 inclusive
- 12 (b) the fiscal years 1930-31 to 1938-39 inclusive
- 13 (c) the fiscal years 1939-40 to 1945-46 inclusive
- 14 (d) the fiscal years 1946-47 to 1949-50 inclusive
- 15 (e) the fiscal years 1950-51 to 1961-62 inclusive.

16 The fiscal years 1926-27 to 1929-30 inclusive

17 During this period budgetary expenditures
18 ranged from \$359 million to \$405 million per year,
19 while budgetary revenues ranged from \$401 million to
20 \$462 million. Budgetary operations resulted in a
21 surplus each year, the amount ranging from \$42 million
22 to \$71 million, as shown in the following table:
23
24
25
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(c) the fiscal years 1939-40 to 1945-46 inclusive

(d) the fiscal years 1946-47 to 1949-50 inclusive

(e) the fiscal years 1950-51 to 1961-62 inclusive

The fiscal years 1926-27 to 1929-30 inclusive

During this period, significant developments

related to the \$100 million to \$150 million per year

while budgetary revenues ranged from \$401 million to

\$462 million. Budgetary operations resulted in a

surplus each year, the amount ranging from \$42 million

to \$71 million, as shown in the following table:

Table 1

BUDGETARY REVENUES, EXPENDITURES, SURPLUS OR DEFICIT,
AND NET DEBT

(in millions of dollars)

Fiscal Year ended March 31	Budgetary Revenues	Budgetary Expenditures	Surplus	Net Debt
1927	401.1	359.2	41.9	2,347.8
1928	430.8	379.8	51.0	2,296.9
1929	461.6	390.3	71.3	2,225.5
1930	453.0	405.3	47.7	2,177.8

During the four-year period the gross national product increased from \$5,152 million in 1926-27 to \$6,134 million in 1930, an increase of about 20 per cent. Revenues declined from 7.8 per cent in 1927 to 7.4 per cent in 1930, and expenditures from 7.0 per cent in 1927 to 6.6 per cent in 1930. The net debt declined in terms of the gross national product from 45.6 per cent in 1927 to 35.5 per cent in 1930 as shown in the following table:

Table 2

BUDGETARY REVENUES, EXPENDITURES AND NET DEBT AS A PERCENTAGE
OF GROSS NATIONAL PRODUCT

Fiscal Year ended March 31	GNP (in millions of dollars)	Revenues (as a percentage of the GNP)	Expenditures	Net Debt
1927	5,152	7.8	7.0	45.6
1928	5,549	7.8	6.8	41.4
1929	6,046	7.6	6.5	36.8
1930	6,134	7.4	6.6	35.5

TABLE 1
FEDERAL REVENUE, EXPENDITURES AND NET DEBT AS A PERCENTAGE
OF GROSS NATIONAL PRODUCT

Year	Federal Revenue	Federal Expenditures	Net Debt
1925	10.5	10.5	10.5
1926	10.5	10.5	10.5
1927	10.5	10.5	10.5
1928	10.5	10.5	10.5
1929	10.5	10.5	10.5
1930	10.5	10.5	10.5
1931	10.5	10.5	10.5
1932	10.5	10.5	10.5
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1935	10.5	10.5	10.5
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1943	10.5	10.5	10.5
1944	10.5	10.5	10.5
1945	10.5	10.5	10.5
1946	10.5	10.5	10.5
1947	10.5	10.5	10.5
1948	10.5	10.5	10.5
1949	10.5	10.5	10.5
1950	10.5	10.5	10.5
1951	10.5	10.5	10.5
1952	10.5	10.5	10.5
1953	10.5	10.5	10.5
1954	10.5	10.5	10.5
1955	10.5	10.5	10.5
1956	10.5	10.5	10.5
1957	10.5	10.5	10.5
1958	10.5	10.5	10.5
1959	10.5	10.5	10.5
1960	10.5	10.5	10.5
1961	10.5	10.5	10.5
1962	10.5	10.5	10.5
1963	10.5	10.5	10.5
1964	10.5	10.5	10.5
1965	10.5	10.5	10.5
1966	10.5	10.5	10.5
1967	10.5	10.5	10.5
1968	10.5	10.5	10.5
1969	10.5	10.5	10.5
1970	10.5	10.5	10.5
1971	10.5	10.5	10.5
1972	10.5	10.5	10.5
1973	10.5	10.5	10.5
1974	10.5	10.5	10.5
1975	10.5	10.5	10.5
1976	10.5	10.5	10.5
1977	10.5	10.5	10.5
1978	10.5	10.5	10.5
1979	10.5	10.5	10.5
1980	10.5	10.5	10.5
1981	10.5	10.5	10.5
1982	10.5	10.5	10.5
1983	10.5	10.5	10.5
1984	10.5	10.5	10.5
1985	10.5	10.5	10.5
1986	10.5	10.5	10.5
1987	10.5	10.5	10.5
1988	10.5	10.5	10.5
1989	10.5	10.5	10.5
1990	10.5	10.5	10.5
1991	10.5	10.5	10.5
1992	10.5	10.5	10.5
1993	10.5	10.5	10.5
1994	10.5	10.5	10.5
1995	10.5	10.5	10.5
1996	10.5	10.5	10.5
1997	10.5	10.5	10.5
1998	10.5	10.5	10.5
1999	10.5	10.5	10.5
2000	10.5	10.5	10.5
2001	10.5	10.5	10.5
2002	10.5	10.5	10.5
2003	10.5	10.5	10.5
2004	10.5	10.5	10.5
2005	10.5	10.5	10.5
2006	10.5	10.5	10.5
2007	10.5	10.5	10.5
2008	10.5	10.5	10.5
2009	10.5	10.5	10.5
2010	10.5	10.5	10.5
2011	10.5	10.5	10.5
2012	10.5	10.5	10.5
2013	10.5	10.5	10.5
2014	10.5	10.5	10.5
2015	10.5	10.5	10.5
2016	10.5	10.5	10.5
2017	10.5	10.5	10.5
2018	10.5	10.5	10.5
2019	10.5	10.5	10.5
2020	10.5	10.5	10.5
2021	10.5	10.5	10.5
2022	10.5	10.5	10.5
2023	10.5	10.5	10.5
2024	10.5	10.5	10.5
2025	10.5	10.5	10.5

During the four-year period the gross national product increased from \$2,152 million in 1925 to \$1,134 million in 1930, an increase of about 30 per cent. Expenditures declined from 7.8 per cent in 1927 to 7.4 per cent in 1930, and expenditures from 7.0 per cent in 1927 to 6.0 per cent in 1930. The net debt declined in terms of the gross national product from 45.6 per cent in 1925 to 35.5 per cent in 1930 as shown in the following table:

Year	Federal Revenue	Federal Expenditures	Net Debt
1925	10.5	10.5	10.5
1926	10.5	10.5	10.5
1927	10.5	10.5	10.5
1928	10.5	10.5	10.5
1929	10.5	10.5	10.5
1930	10.5	10.5	10.5
1931	10.5	10.5	10.5
1932	10.5	10.5	10.5
1933	10.5	10.5	10.5
1934	10.5	10.5	10.5
1935	10.5	10.5	10.5
1936	10.5	10.5	10.5
1937	10.5	10.5	10.5
1938	10.5	10.5	10.5
1939	10.5	10.5	10.5
1940	10.5	10.5	10.5
1941	10.5	10.5	10.5
1942	10.5	10.5	10.5
1943	10.5	10.5	10.5
1944	10.5	10.5	10.5
1945	10.5	10.5	10.5
1946	10.5	10.5	10.5
1947	10.5	10.5	10.5
1948	10.5	10.5	10.5
1949	10.5	10.5	10.5
1950	10.5	10.5	10.5
1951	10.5	10.5	10.5
1952	10.5	10.5	10.5
1953	10.5	10.5	10.5
1954	10.5	10.5	10.5
1955	10.5	10.5	10.5
1956	10.5	10.5	10.5
1957	10.5	10.5	10.5
1958	10.5	10.5	10.5
1959	10.5	10.5	10.5
1960	10.5	10.5	10.5
1961	10.5	10.5	10.5
1962	10.5	10.5	10.5
1963	10.5	10.5	10.5
1964	10.5	10.5	10.5
1965	10.5	10.5	10.5
1966	10.5	10.5	10.5
1967	10.5	10.5	10.5
1968	10.5	10.5	10.5
1969	10.5	10.5	10.5
1970	10.5	10.5	10.5
1971	10.5	10.5	10.5
1972	10.5	10.5	10.5
1973	10.5	10.5	10.5
1974	10.5	10.5	10.5
1975	10.5	10.5	10.5
1976	10.5	10.5	10.5
1977	10.5	10.5	10.5
1978	10.5	10.5	10.5
1979	10.5	10.5	10.5
1980	10.5	10.5	10.5
1981	10.5	10.5	10.5
1982	10.5	10.5	10.5
1983	10.5	10.5	10.5
1984	10.5	10.5	10.5
1985	10.5	10.5	10.5
1986	10.5	10.5	10.5
1987	10.5	10.5	10.5
1988	10.5	10.5	10.5
1989	10.5	10.5	10.5
1990	10.5	10.5	10.5
1991	10.5	10.5	10.5
1992	10.5	10.5	10.5
1993	10.5	10.5	10.5
1994	10.5	10.5	10.5
1995	10.5	10.5	10.5
1996	10.5	10.5	10.5
1997	10.5	10.5	10.5
1998	10.5	10.5	10.5
1999	10.5	10.5	10.5
2000	10.5	10.5	10.5
2001	10.5	10.5	10.5
2002	10.5	10.5	10.5
2003	10.5	10.5	10.5
2004	10.5	10.5	10.5
2005	10.5	10.5	10.5
2006	10.5	10.5	10.5
2007	10.5	10.5	10.5
2008	10.5	10.5	10.5
2009	10.5	10.5	10.5
2010	10.5	10.5	10.5
2011	10.5	10.5	10.5
2012	10.5	10.5	10.5
2013	10.5	10.5	10.5
2014	10.5	10.5	10.5
2015	10.5	10.5	10.5
2016	10.5	10.5	10.5
2017	10.5	10.5	10.5
2018	10.5	10.5	10.5
2019	10.5	10.5	10.5
2020	10.5	10.5	10.5
2021	10.5	10.5	10.5
2022	10.5	10.5	10.5
2023	10.5	10.5	10.5
2024	10.5	10.5	10.5
2025	10.5	10.5	10.5

The fiscal years 1930-31 to 1938-39 inclusive

In the period from 1931 to 1939 revenues declined for the first three years from \$358 million in 1931 to \$312 million in 1933, and then increased gradually to more than \$500 million in 1938 and 1939. Expenditures in the first three years rose markedly to meet the needs of the country during the depression, increasing gradually for the balance of this period. To alleviate the effects of the depression the government in 1930-31 instituted measures for the relief of unemployment. Relief and public welfare expenditures by the federal government during this period amounted to \$368 million, rising from \$4 million in 1930-31 to a high of \$69 million in 1936-37. Substantial payments were also made on account of the deficits of the Canadian National Railways and for government assistance in respect of wheat and coal. Throughout the period there were annual deficits ranging from \$18 million to \$221 million as shown in the following table:

TABLE 3

BUDGETARY REVENUES, EXPENDITURES, SURPLUS OR DEFICIT AND NET DEBT
(in millions of dollars)

Fiscal Year ended March 31	Budgetary Revenues	Budgetary Expenditures	Deficit (-)	Net Debt
1931	357.7	441.6	-83.8	2,261.6
1932	334.5	448.7	-114.2	2,375.8
1933	311.7	532.4	-220.6	2,596.5
1934	324.7	458.2	-133.5	2,730.0
1935	362.0	478.1	-116.1	2,846.1
1936	372.6	532.6	-160.0	3,006.1
1937	454.1	532.0	- 77.9	3,084.0
1938	516.7	534.4	- 17.7	3,101.7
1939	502.2	553.1	- 50.9	3,152.6

The fiscal years 1931 to 1939

In the period from 1931 to 1939 revenues declined for the first three years from \$358 million in 1931 to \$312 million in 1933, and then increased. Expenditures in the first three years rose markedly to meet the needs of the country during the depression, increasing gradually for the balance of this period. To alleviate the effects of the depression the government in 1930-31 instituted measures for the relief of unemployment, relief and public welfare expenditures by the federal government during this period amounted to \$388 million, rising from \$4 million in 1930-31 to a high of \$69 million in 1936-37. Substantial payments were also made on account of the deficits of the Canadian National Railways and for government assistance in respect of wheat and coal. Throughout the period there were annual deficits ranging from \$18 million to \$221 million as shown in the following table:

Fiscal year	Revenues	Expenditures	Deficit (-)
1930-31	358.0	388.0	-30.0
1931-32	312.0	358.0	-46.0
1932-33	312.0	358.0	-46.0
1933-34	358.0	358.0	0.0
1934-35	358.0	358.0	0.0
1935-36	358.0	358.0	0.0
1936-37	358.0	358.0	0.0
1937-38	358.0	358.0	0.0
1938-39	358.0	358.0	0.0
1939-40	358.0	358.0	0.0

The gross national product decreased during the first four years from \$5,728 million in 1931 to \$3,510 million, increasing during the remainder of the period to \$5,278 million in 1939. Expressed as a percentage of the gross national product, revenues increased from 6.2 per cent in 1931 to 9.5 per cent in 1939. During the same period, expenditures increased sharply from 7.7 per cent to 13.9 per cent and then eased off to 10.5 per cent. The net debt increased from 40 per cent of the gross national product in 1931 to 78 per cent in 1934 and then declined to 60 per cent in 1939, as is shown in the following table:

TABLE 4

BUDGETARY REVENUES, EXPENDITURES AND NET DEBT AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

Fiscal Year ended March 31	GNP (in millions of dollars)	Revenues	Expenditures	Net Debt
		(as a percentage of the GNP)		
1931	5,728	6.2	7.7	39.5
1932	4,699	7.1	9.5	50.6
1933	3,827	8.1	13.9	67.8
1934	3,510	9.3	13.1	77.8
1935	3,984	9.1	12.0	71.4
1936	4,315	8.6	12.3	69.7
1937	4,653	9.8	11.4	66.3
1938	5,257	9.8	10.2	59.0
1939	5,278	9.5	10.5	59.7

The fiscal years 1939-40 to 1945-46 inclusive

Total expenditures for this period were \$23,907 million of which war and demobilization expenditures amounted to \$18,943 million, including investment in plant and equipment of \$2,194 million, mutual aid

The gross national product decreased during

\$3,510 million, increasing during the remainder of the period to \$2,770 million in 1937. Expressed as a percentage of the gross national product, revenue increased from 12.2 per cent in 1931 to 9.5 per cent in 1937. During the same period, expenditures increased sharply from 7.7 per cent to 13.9 per cent and then eased off to 10.5 per cent. The net debt increased from 10 per cent of the gross national product in 1931 to 78 per cent in 1934 and then declined to 50 per cent in 1937, as is shown in the following table:

BUDGETARY REVENUES, EXPENDITURES AND NET DEBT AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

Fiscal Year ended March 31	GNP (in millions of dollars)	Revenue Expenditures Net Debt (as a percentage of GNP)
1931	2,728	6.2
1932	4,699	7.1
1933	3,927	8.1
1934	3,210	9.3
1935	3,984	9.1
1936	4,315	8.6
1937	4,653	9.8
1938	5,257	9.8
1939	5,278	9.5

The fiscal years 1932-40 to 1945-46 inclusive

Total expenditures for this period were

\$23,207 million of which war and demobilization expendi-

in plant and equipment of \$2,104 million, mutual aid

The fiscal years 1939-40 to 1945-46 inclusive

Total expenditures for this period were \$23,907 million of which war and demobilization expenditures amounted to \$18,943 million, including investment in plant and equipment of \$2,194 million, mutual aid of \$2,472 million, special aid to the United Kingdom in the amount of \$1,425 million and Veterans' benefits of \$403 million. Also contributing to the increase of expenditures in this period were payments to provinces under the Dominion-Provincial Taxation Agreement Act, 1942, and a trebling of the public debt charges.

The impact of the war effort on federal public finance is shown in the following table:

TABLE 5

BUDGETARY REVENUES, EXPENDITURES, SURPLUS OR DEFICIT AND NET DEBT
(in millions of dollars)

Fiscal Year ended March 31	Budgetary Revenues	Budgetary Expenditures	Deficit (-)	Net Debt
1940	562.1	680.8	-118.7	3,271.3
1941	872.2	1,249.6	-377.4	3,648.7
1942	1,488.5	1,885.0	-396.5	4,045.2
1943	2,249.5	4,387.1	-2,137.6	6,182.8
1944	2,765.0	5,322.2	-2,557.2	8,740.1
1945	2,687.3	5,245.6	-2,558.3	11,298.4
1946	3,013.2	5,136.2	-2,123.0	13,421.4

Revenues which in 1940 amounted to \$562 million or 10 per cent of the gross national product, increased to \$3,013 million by 1946, or 26 per cent of the gross national product. In the years 1944, 1945 and 1946 the budgetary revenues included special receipts and credits amounting to \$195, \$387 and \$650 million respectively

which were chiefly recoveries of prior year war expenditures and the sale of surplus war assets. Expenditures which amounted to \$681 million in 1940 rose to \$5,322 million by 1944, representing 48 per cent of the gross national product, declining to \$5,136 million in 1946, or 43 per cent of the gross national product. A deficit of \$119 million in 1940 rose to more than \$2,000 million in each of the fiscal years ending March 31, 1943, 1944, 1945 and 1946. The net debt of Canada increased from \$3,271 million in 1940 to \$13,421 million in 1946, being then 113 per cent of the gross national product, as shown in the following table:

TABLE 6

BUDGETARY REVENUES, EXPENDITURES AND NET DEBT AS A PERCENTAGE
OF GROSS NATIONAL PRODUCT

Fiscal Year ended March 31	GNP (in millions of dollars)	Revenues	Expenditures	Net Debt
		(as a percentage of the GNP)		
1940	5,636	10.0	12.1	58.0
1941	6,743	12.9	18.5	54.1
1942	8,328	17.9	22.6	48.6
1943	10,327	21.8	42.5	59.9
1944	11,088	24.9	48.0	78.8
1945	11,850	22.7	44.3	95.3
1946	11,835	25.5	43.4	113.4

The fiscal years 1946-47 to 1949-50 inclusive

In the years 1947 to 1950 revenues declined by \$428 million from \$3,008 million in 1947 to \$2,580 million in 1950. Revenues for the years 1947, 1948 and 1949 included special receipts and credits amounting to

and the sale of surplus war assets.
 rose to \$5,322 million by 1944, representing 48 per cent of the gross national product, declining to \$5,196 million in 1946, or 43 per cent of the gross national product. A deficit of \$119 million in 1940 rose to more than \$2,000 million in each of the fiscal years ending March 31, 1943, 1944, 1945 and 1946. The net debt of Canada increased from \$3,571 million in 1930 to \$13,421 million in 1946, being then 63 per cent of the gross national product, as shown in the

TABLE 6

BUDGETARY REVENUES, EXPENDITURES AND NET DEBT AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

Fiscal Year ended March 31	G.N.P. (in millions of dollars)	Revenues Expenditures Net Debt (as a percentage of the G.N.P.)
1940	2,436	10.0
1941	2,713	12.9
1942	4,228	16.2
1943	11,066	48.3
1944	11,650	44.3
1945	11,650	44.3
1946	11,650	44.3

In the years 1947 to 1950 revenues declined by \$426 million from \$3,008 million in 1947 to \$2,580 million in 1950. Revenues for the years 1947, 1948 and 1949 included special receipts and credits amounting to

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\$419, \$242 and \$122 million respectively which were chiefly recoveries of prior war expenditures and the sale of war assets. In the same period expenditures declined from \$2,634 million in 1947 to \$2,176 million in 1949, rising to \$2,449 million in 1950, a net decrease of \$185 million from 1947 and \$2,687 million from the last war year 1946. The decrease in expenditures during this period was due to a substantial reduction in war and demobilization costs. The decrease of \$2,555 million in defence expenditures was offset in part by payments to the Canadian Wheat Board, payments of deficits of the Canadian National Railways and the commencement of Family Allowances and Health Grants.

TABLE 7

BUDGETARY REVENUES, EXPENDITURES, SURPLUS OR DEFICIT AND NET DEBT
(in millions of dollars)

Fiscal Year ended March 31	Budgetary Revenues	Budgetary Expenditures	Surplus	Net Debt
1947	3,007.9	2,634.2	373.7	13,047.8
1948	2,871.7	2,195.6	676.1	12,371.6
1949	2,771.4	2,175.9	595.5	11,776.1
1950	2,580.1	2,448.6	131.5	11,644.6

Revenues which in 1947 were 25 per cent of the gross national product fell to 16 per cent in 1950. Expenditures which were 43 per cent in 1946 fell to 22 per cent in 1947 and to 15 per cent in 1950. Budgetary operations resulted in surpluses in each of the years and the net debt which stood at \$13,421 million, or 113 per cent of the gross national product, at the end

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of 1946 declined to \$13,048 million, or 110 per cent of the gross national product, in 1947 and to \$11,645 million, or 71 per cent of the gross national product, in 1950, as shown in the following table:

TABLE 8

BUDGETARY REVENUES, EXPENDITURES AND NET DEBT AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

Fiscal Year ended March 31	GNP (in millions of dollars)	Revenues (as a percentage of the GNP)	Expenditures	Net Debt
1947	11,850	25.4	22.2	110.1
1948	13,165	21.8	16.7	94.0
1949	15,120	18.3	14.4	77.9
1950	16,343	15.8	15.0	71.3

During this final eleven year period revenues moved up fairly steadily from \$3,113 million in 1951 to \$5,730 million in 1962, and expenditures from \$2,901 million to \$6,521 million. The annual figures are shown in Table 9. Due to the deterioration in international conditions, including the Berlin crisis and the Korean war, and the consequential establishment of NATO, expenditures for national defence increased from \$387 million in 1949-50 to a high of \$1,973 million in 1952-53. In subsequent years, these expenditures have remained at only a slightly lower level due to world tensions. During the period under review there were also large increases in health and welfare payments, (including those instituted in 1958-59 pursuant to the Hospital Insurance and Diagnostic Services Act), payments to provinces under federal-provincial tax

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agreements, interest on public debt which nearly doubled during this period and a general increase in the overall costs of operating government departments.

TABLE 9

BUDGETARY REVENUES, EXPENDITURES, SURPLUS OR DEFICIT AND NET DEBT
(in millions of dollars)

Fiscal Year ended March 31	Budgetary Revenues	Budgetary Expenditures	Surplus or Deficit (-)	Net Debt
1951	3,112.5	2,901.2	211.3	11,433.3
1952	3,980.9	3,732.9	248.0	11,185.3
1953	4,360.8	4,337.3	23.5	11,161.7
1954	4,396.3	4,350.5	45.8	11,115.9
1955	4,123.5	4,275.3	-151.8	11,263.1
1956	4,400.0	4,433.1	-33.1	11,280.4
1957	5,106.5	4,849.0	257.5	11,007.7
1958	5,048.8	5,087.4	-38.6	11,046.3
1959	4,754.7	5,364.0	-609.3	11,678.4
1960	5,289.8	5,702.9	-413.1	12,089.2
1961	5,617.7	5,958.1	-340.4	12,437.1
1962	5,729.6	6,520.6	-791.0	13,228.1

Revenues which in 1951 were 17 per cent of the gross national product decreased to 16 per cent in 1962 whereas expenditures increased from 16 per cent in 1951 to 18 per cent in 1962. In the same period the net debt increased from \$11,433 million in 1951, or 64 per cent of the gross national product, to \$13,228 million in 1962 when it represented 36 per cent of the gross national product as shown in the following table:

TABLE 10

BUDGETARY REVENUES, EXPENDITURES AND NET DEBT AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

Fiscal Year ended March 31	GNP (in millions of dollars)	Revenues	Expenditures	Net Debt
		(as a percentage of the GNP)		
1951	18,006	17.3	16.1	63.5
1952	21,170	18.8	17.6	52.8
1953	23,995	18.2	18.1	46.5
1954	25,020	17.6	17.4	44.4
1955	24,871	16.6	17.2	45.3
1956	27,132	16.2	16.3	41.6
1957	30,585	16.7	15.9	36.0
1958	31,909	15.8	15.9	34.6
1959	32,894	14.5	16.3	35.5
1960	34,784	15.2	16.4	34.8
1961	35,928	15.6	16.6	34.6
1962	36,844	15.6	17.7	35.9

Budgetary Revenues by Sources

Budgetary revenues rose from \$401 million in 1926-27 to \$5,730 million in 1961-62. Appendix II of this section sets out in tabular form budgetary revenues by source for the fiscal years 1926-27 to 1961-62 inclusive.

In 1926-27 tax revenues were 87 per cent of total revenues compared with 89 per cent in 1961-62. However, the percentage each category bears to the total revenues differs to a marked degree. Taxes derived from customs import duties, sales tax and other excise taxes and duties comprised 74 per cent of the total revenue in 1926-27, whereas in 1961-62 they were only 33 per cent. On the other hand personal and corporation income taxes which were 13 per cent of the total in 1926-27 had risen to 54 per cent in 1961-62. Non-tax revenues which made up 13 per cent of the total

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in 1926-27, dropped to 11 per cent in 1961-62. Table 11 presents a summary of budgetary revenues for the fiscal years 1926-27 and 1961-62.

TABLE 11

COMPARISON OF BUDGETARY REVENUES BY SOURCES
FISCAL YEARS 1926-27 AND 1961-62

	<u>Amount</u>		<u>Per cent</u>	
	(in millions of dollars)			
	<u>1926-27</u>	<u>1961-62</u>	<u>1926-27</u>	<u>1961-62</u>
Income Taxes				
Individuals	18	1,793	4.5	31.3
Corporate	30	1,202	7.5	21.0
Non-resident	-	112	-	2.0
Estate Tax	-	85	-	1.5
Commodity Taxes				
Customs	142	534	35.4	9.3
Sales	81	760	20.2	13.3
Other	76	625	18.9	10.9
Total Taxes	347	5,111	86.5	89.2
Non-Tax Revenues				
Return in Investments	9	308	2.3	5.4
Post Office	29	184	7.2	3.2
Other	16	127	4.0	2.2
Total non-tax Revenues	54	619	13.5	10.8
Total Budgetary Revenues	401	5,730	100.0	100.0

In 1961-62, revenue from personal income tax accounted for close to one-third of total revenue and corporation income taxes over one-fifth. In 1926-27, these two categories combined were only one-eighth of the total budgetary revenue.

In 1961-62 customs import duties constituted one-eleventh of all budgetary revenues and sales and other excise taxes and duties accounted for one-quarter of the total. In 1926-27, these sources produced more than three-quarters of the total revenue.

Table 12 presents a comparison of each revenue source as a percentage of total budgetary revenue for the fiscal years 1926-27, 1938-39, 1945-46, 1949-50 and 1961-62.

TABLE 12

BUDGETARY REVENUES BY SOURCES AS
PERCENTAGES OF TOTAL BUDGETARY REVENUES

	<u>Fiscal Years</u>				
	<u>1926-27</u>	<u>1938-39</u>	<u>1945-46</u>	<u>1949-50</u>	<u>1961-62</u>
Income Taxes					
Individual	4.5	9.3	22.8	24.1	31.3
Corporate	7.5	17.0	21.4	23.3	21.0
Non-Resident	-	2.0	0.9	1.8	2.0
Estate Tax	-	-	0.7	1.2	1.5
Commodity Taxes					
Customs	35.4	15.7	4.3	8.8	9.3
Sales	20.2	24.3	7.1	15.6	13.3
Other	18.9	18.6	15.9	15.2	10.9
Total Taxes	86.5	86.9	73.1	90.0	89.2
Non-Tax Revenues					
Return on Investments	2.3	2.6	2.4	3.6	5.4
Post Office	7.2	7.1	2.3	3.3	3.2
Other	4.0	3.4	22.3	3.1	2.2
Total Non-Tax Revenues	13.5	13.1	26.9	10.0	10.8
Total Budgetary Revenues	100.0	100.0	100.0	100.0	100.0



1 decrease in the percentage which other taxes bore to
2 the total; in 1938-39 this percentage was 58 per cent
3 compared with 74 per cent in 1926-27.

4 By 1945-46 budgetary revenues had increased
5 to \$3,013 million reflecting the impact of the war on
6 government operations. In 1945-46 income tax revenue
7 (including excess business profits tax) constituted
8 45 per cent of all budgetary revenue. There were also
9 large non-tax revenue receipts in the year, mainly from
10 refunds of war expenditures and other special receipts
11 which were 22 per cent of the total budgetary revenue.

12 The 1949-50 budgetary revenue of \$2,580 million
13 reflected a sharp decrease due to a reduction in tax
14 rates. The trend towards higher income tax receipts
15 in relation to total budgetary revenue continued; they
16 were 49 per cent of the total in 1949-50 compared with
17 28 per cent in 1938-39.

18 By 1961-62 budgetary revenues had risen to
19 \$5,730 million owing to the growth in the economy of
20 the country and the need to finance increasing costs
21 for defence, health, welfare and social security,
22 transportation and communications, resources and develop-
23 ment and payments to provincial governments.

24 Budgetary Expenditures on a Functional Basis

25 Total budgetary expenditures moved from
26 \$359 million in 1926-27 to \$405 million in 1929-30,
27 \$553 million in 1938-39, \$5,136 million in 1945-46,
28 \$2,449 million in 1949-50, and \$6,521 million in
29 1961-62. Appendix III of this section sets out in
30 tabular form the budgetary expenditures by function

decrease in the percentage which other taxes bore to the total; in 1938-39 this percentage was 58 per cent compared with 74 per cent in 1926-27.

By 1945-46 budgetary revenues had increased to \$3,013 million reflecting the impact of the war on government operations. In 1945-46 income tax revenue

(inclusive of other taxes and duties)

45 per cent of all budgetary revenues. There were also large non-tax revenue receipts in the year, mainly from refunds of war expenditures and other special receipts which were 22 per cent of the total budgetary revenue.

The 1949-50 budgetary revenue of \$2,580 million

reflected a sharp decrease due to a reduction in tax rates. The trend towards higher income tax receipts in relation to total budgetary revenue continued; they were 49 per cent of the total in 1949-50 compared with 38 per cent in 1938-39.

By 1961-62 budgetary revenues had risen to

\$5,730 million owing to the growth in the economy of the country and the need to finance increasing costs for defence, health, welfare and social security, transportation and communications, resources and development and payments to provincial governments.

Budgetary Expenditures on a Functional Basis

Total budgetary expenditures moved from

\$359 million in 1926-27 to \$405 million in 1929-30, \$523 million in 1938-39, \$5,136 million in 1945-46, \$2,449 million in 1949-50, and \$6,521 million in

1961-62. Appendix III of this section sets out in tabular form the budgetary expenditures by function



1 for each year from 1926-27 to 1961-62.

2 Except for the financial and budgetary impact
3 of World War II the total expenditures for each main
4 function increased throughout this 36 year period,
5 but their percentages of each annual total have
6 shifted quite substantially.

7 In 1926-27 the order of magnitude of the five
8 largest classes of expenditure was Public Debt,
9 Transportation and Communications, Veterans' Affairs,
10 Resources and Development, and General Government;
11 in 1938-39 the order was Debt, Transportation and
12 Communications, Health and Welfare, Veterans' Affairs,
13 and Resources and Development; in 1945-46, Defence,
14 Debt, Veterans' Affairs, Health and Welfare, and
15 Resources and Development; in 1949-50, Health and
16 Welfare, Debt, Defence, Veterans' Affairs, and
17 Transportation and Communications; and in 1961-62,
18 Defence, Health and Welfare, Debt, Transportation and
19 Communications, and Resources and Development.

20 It should be noted that Old Age Security
21 Fund pension payments, which amounted to \$323 million
22 in 1952-53 and \$625 million in 1961-62, are not
23 included in the budgetary expenditures; but in certain
24 years the prior year deficit in the Old Age Security
25 Fund has been charged to the budgetary expenditures,
26 viz., in 1951-52, \$50 million, 1954-55 \$46 million,
27 1955-56 \$63 million, 1956-57 \$56 million, 1957-58
28 \$104 million, and 1958-59 \$184 million.

29 Table 13 presents a summary and comparison
30 of budgetary expenditures for the years 1926-27 and

of budgetary expenditures for the years 1950-57 and Table 13 presents a summary and comparison

\$104 million, and 1958-59 \$184 million.

1955-56 \$83 million, 1956-57 \$56 million, 1957-58

1958-59 \$104 million, 1959-60 \$184 million

and has been charged to the budgetary expenditures, and the prior year deficit in the Old Age Security

included in the budgetary expenditures; but in certain

in 1952-53 and \$665 million in 1951-52, are not

from pension payments, which amounted to \$323 million

It should be noted that Old Age Security

Communications, and Resources and Development.

Defence, Health and Welfare, Debt, Transportation and

Transportation and Communications; and in 1951-52,

Welfare, Debt, Defence, Veterans' Affairs, and

Resources and Development; in 1949-50, Health and

Debt, Veterans' Affairs, Health and Welfare, and

and Resources and Development; in 1945-46, Defence,

Communications, Health and Welfare, Veterans' Affairs,

in 1938-39 the order was Debt, Transportation and

Resources and Development, and General Government;

Transportation and Communications, Veterans' Affairs,

Largest classes of expenditures was Public Debt,

In 1956-57 the order of magnitude of the five

and their percentages of each annual total have

function increased throughout this 36 year period,

of World War II the total expenditures for each main

Except for the financial and budgetary impact

for each year from 1920-27 to 1951-52.

- A 20 -

TABLE 13

COMPARISON OF BUDGETARY EXPENDITURES BY FUNCTION
FISCAL YEARS 1926-27 AND 1961-62

	Amount (in millions of dollars)		Per cent	
	1926-27	1961-62	1926-27	1961-62
Defence	15	1,650	4.2	25.3
Public Debt Charges	130	839	36.1	12.9
Payments to Provincial and Municipal Govern- ments	13	567	3.6	8.7
Health, Welfare and Education	7	1,292	1.9	19.8
Veterans' Affairs	46	333	12.8	5.1
International Co-operation	-	76	-	1.2
Transportation and Communications	80	756	22.2	11.6
Resources and Development	32	572	8.9	8.8
General Government	21	425	5.8	6.5
Unclassified	16	10	4.4	-
Total	359	6,521	100.0	100.0

TABLE 14

BUDGETARY EXPENDITURES BY FUNCTION AS A PERCENTAGE
OF TOTAL BUDGETARY EXPENDITURES

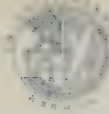
	1926-27	1938-39	1945-46	1949-50	1961-62
Defence	4.2	6.3	57.3	15.8	25.3
Public Debt Charges	36.1	24.1	8.5	18.4	12.9
Payments to Provincial and Municipal Govern- ments	3.6	3.9	2.2	4.3	8.7
Health, Welfare and Education	1.9	14.5	5.8	20.2	19.8
Veterans' Affairs	12.8	10.3	7.8	10.1	5.1
International Cooperation	-	0.3	0.1	0.5	1.2
Transportation and Communications	22.2	22.2	2.5	9.9	11.6
Resources and Development	8.9	9.7	2.7	7.8	8.8
General Government	5.8	8.1	2.5	6.9	6.5
Unclassified	4.4	0.6	10.6	6.1	-
Total	100.0	100.0	100.0	100.0	100.0



1 Defence expenditures covered 5 per cent or
2 less of total budgetary expenditures in all the years
3 prior to 1938. During the major war years, 1942 to
4 1945, they took over 75 to 80 per cent of the total
5 budget; in the immediate post-war years, 1946 to 1950,
6 they dropped back into the 10 to 15 per cent range,
7 then moved up rapidly to the 40 to 45 per cent level
8 in the years 1952 to 1956; since then they have eased
9 off as a percentage of total expenditures toward the
10 25 per cent level.

11 The cost of the public debt did not change
12 significantly between 1926 and 1939, though as a per-
13 centage of total expenditure it fell from 36 per cent
14 to 24 per cent. During and since the war the public
15 debt charges have increased fairly steadily in amount,
16 but as a percentage of total expenditures it stood
17 at about 13 per cent in 1961-62.

18 Health and Welfare costs (which include
19 Education expenditures but do not include Old Age
20 Pensions) were a very small element in budgetary
21 expenditures prior to the depression of the 1930s.
22 In the late 1920s they were less than \$10 million
23 or less than $2\frac{1}{2}$ per cent of total expenditures.
24 During the 1930s they rose very substantially to
25 totals exceeding \$100 million or about 20 per cent
26 of the budget. During the war these costs eased
27 off into the \$60 to \$80 million range, but down to
28 less than 2 per cent of total expenditures. In the
29 post-war years family allowances were introduced,
30 an expanding number of welfare cost-sharing arrange-



an expanding number of welfare cost-sharing arrangements post-war years family allowances were introduced, less than 2 per cent of total expenditures. In the off into the \$60 to \$80 million range, but down to of the budget. During the war these costs eased totals exceeding \$100 million or about 20 per cent. During the 1950s they rose very substantially to or less than 2 1/2 per cent of total expenditures. In the late 1950s they were less than \$10 million expenditures prior to the depression of the 1930s. (Pensions) were a very small element in budgetary Education expenditures but do not include Old Age Health and Welfare costs (which include at about 13 per cent in 1961-62. but as a percentage of total expenditures it stood debt charges have increased fairly steadily in amount, to 24 per cent. During and since the war the public percentage of total expenditure it fell from 36 per cent significantly between 1956 and 1939, though as a percentage of the public debt did not change. The cost of the public debt did not change 25 per cent level.

off as a percentage of total expenditures toward the in the years 1952 to 1956; since then they have eased then moved up rapidly to the 40 to 45 per cent level they dropped back into the 10 to 15 per cent range, budget; in the immediate post-war years, 1946 to 1950, 1945, they took over 75 to 80 per cent of the total prior to 1938. During the major war years, 1942 to less of total budgetary expenditures in all the years Defence expenditures covered 5 per cent or



1 ments were made with the provinces, old age pension
2 fund deficits moved in from time to time into the
3 budgetary expenditures, and finally there was the
4 federal participation in hospital and diagnostic
5 services. As a result total federal health and
6 welfare costs moved up from less than \$100 million
7 in 1944-45 to almost \$1,300 million in 1961-62.
8 Their percentage of total expenditures has fluctuated
9 largely in reverse to defence expenditures. It was
10 around 20 per cent in the late 1940s, dropped into
11 the 10 to 15 per cent range in the years 1952 to 1957,
12 and moved back to 20 per cent in 1961-62.

13 Veterans' Affairs expenditures prior to
14 1940 were in the \$50 to \$60 million range, or 10 to
15 15 per cent of total expenditures. In the immediate
16 post-war years the demobilization grants temporarily
17 raised these expenditures to over \$600 million, or
18 23 per cent of the budgetary total. Since 1950
19 Veterans' Affairs expenditures have moved up fairly
20 steadily from \$216 million to \$333 million in 1961-62
21 which is about 5 per cent of the budget.

22 Federal payments to provinces and municipalities
23 were quite moderate prior to the war-time tax arrange-
24 ments. Prior to the war they consisted chiefly of the
25 payments to the provinces required under the British
26 North America Act, and ranged between \$15 and \$20 million
27 a year, or 3 to 4 per cent of total budgetary expenditures.
28 During and since the war tax rental and "equalization"
29 arrangements with the provinces, and grants to
30 municipalities in lieu of taxes on federally owned real



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services. As a result total federal health and
welfare costs moved up from less than \$100 million
in 1944-45 to almost \$1,300 million in 1961-62.
Their percentage of total expenditures has fluctuated
slightly in reverse to defence expenditures. It was
around 20 per cent in the late 1940s, dropped into
the 10 to 15 per cent range in the years 1952 to 1957,
and moved back to 20 per cent in 1961-62.

Veterans' Affairs expenditures prior to
1940 were in the \$50 to \$60 million range, or 10 to
15 per cent of total expenditures. In the immediate
post-war years the demobilization grants temporarily
raised these expenditures to over \$200 million, or
23 per cent of the budgetary total. Since 1950
Veterans' Affairs expenditures have moved up steadily
from \$250 million to \$525 million in 1961-62,
which is about 5 per cent of the budget.

Federal payments to provinces and municipalities
were quite moderate prior to the war-time tax arrange-
ments. Prior to the war they consisted chiefly of the
payments to the provinces required under the British
North America Act, and ranged between \$15 and \$20 million
a year, or 3 to 4 per cent of total budgetary expenditures.
Federal and provincial tax arrangements and grants to
municipalities in lieu of taxes on federally owned real



1 property have progressively built up those federal
2 expenditures from \$109 million in 1942-43 to \$567 million
3 in 1961-62, an increase from 2.5 per cent to 8.7 per
4 cent of the total budget.

5 Transportation and Communications costs before
6 the war were a very heavy element in government expendi-
7 tures. They ranged between \$80 and \$160 million or
8 20 to 30 per cent of total expenditures. Two large
9 elements in these costs were freight rate subsidies
10 and C.N.R. deficits. Since the war these costs have
11 moved up steadily from \$130 million to \$750 million,
12 or from 5 per cent to 12 per cent of total expenditures.
13 This growth in expenditures includes rail, road, air
14 and water transportation costs and services and also
15 broadcasting and other forms of communications.

16 Resources and Development expenditures include
17 assistance and encouragement to agriculture and fisheries,
18 mining and forestry, and also research and development
19 programmes. The costs prior to the war were largely
20 in the \$30 to \$40 million range, or in the 6 to 8 per
21 cent range. Since the war these expenditures have risen
22 steadily from \$130 million to \$570 million, or from
23 5 per cent to 9 per cent of the budget.

24 Finally, General Government expenditures,
25 that is, the general costs of administration not directly
26 related to the other specified functions, have increased
27 steadily in amount, but have remained fairly constant as
28 a percentage of total expenditures, except, of course,
29 in the war years.
30

expenditures from \$109 million in 1942-43 to \$587 million in 1961-62, an increase from 2.5 per cent to 6.7 per cent of the total budget.

Transportation and Communications costs before

the war were a very heavy element in government expenditures. They ranged between \$80 and \$100 million or 20 to 30 per cent of total expenditures. Two large elements in these costs were freight rate subsidies and C.W.R. deficits. Since the war these costs have moved up steadily from \$135 million to \$750 million, or from 5 per cent to 12 per cent of total expenditures. This growth in expenditures includes rail, road, air and water transportation costs and services and also broadcasting and other forms of communications.

Resources and Development expenditures include

mining and forestry, and also research and development programmes. The costs prior to the war were largely in the \$30 to \$40 million range, or in the 6 to 8 per cent range. Since the war these expenditures have risen steadily from \$150 million to \$570 million, or from

Finally, General Government expenditures,

that is, the general costs of administration not directly related to the other specified functions, have increased steadily in amount, but have remained fairly constant as a percentage of total expenditures, except, of course, in the war years.

Summary of Budgetary Revenues and Expenditures
and as a percentage of the Gross National Product
for the fiscal years ended March 31, 1927 to 1962

Fiscal Year ended	(In millions of dollars)					As Percentages of Gross National Product				
	Budgetary Revenues	Budgetary Expenditures	Surplus or Deficit (-)	Net Debt (1)	Gross National Product (2)	Revenues	Expenditures	Surplus or Deficit (-)	Net Debt	
1962	5,729.6	6,520.6	-791.0	13,228.1	36,844	15.6	17.7	-2.1	35.9	
1961	5,617.7	5,958.1	-340.4	12,437.1	35,928	15.6	16.6	-0.9	34.6	
1960	5,289.8	5,702.9	-413.1	12,089.2	34,784	15.2	16.4	-1.2	34.8	
1959	4,754.7	5,364.0	-609.3	11,678.4	32,894	14.5	16.3	-1.9	35.5	
1958	5,084.8	5,087.4	-38.6	11,046.3	31,909	15.8	15.9	-0.1	34.6	
1957	5,106.5	4,849.0	257.5	11,007.7	30,585	16.7	15.9	0.8	36.0	
1956	4,400.0	4,433.1	-33.1	11,280.4	27,132	16.2	16.3	-0.1	41.6	
1955	4,123.5	4,275.3	-151.8	11,263.1	24,871	16.6	17.2	-0.6	45.3	
1954	4,396.3	4,350.5	45.8	11,115.9	25,020	17.6	17.4	0.2	44.4	
1953	4,360.8	4,337.3	23.5	11,161.7	23,995	18.2	18.1	0.1	46.5	
1952	3,980.9	3,732.9	248.0	11,185.3	21,170	18.8	17.6	1.2	52.8	
1951	3,112.5	2,901.2	211.3	11,433.3	18,096	17.3	16.1	1.2	63.5	
1950	2,580.1	2,448.6	131.5	11,644.6	16,343	15.8	15.0	0.8	71.3	
1949	2,771.4	2,175.9	595.5	11,776.1	13,120	18.3	14.4	3.9	77.0	
1948	2,811.7	2,195.6	616.1	12,371.6	13,165	21.8	16.7	5.1	94.0	
1947	3,007.9	2,634.2	373.7	13,047.8	11,850	25.4	22.2	3.2	110.1	
1946	3,013.2	5,136.2	-2,123.0	13,421.4	11,835	25.5	43.4	-17.9	113.1	
1945	2,687.3	5,245.6	-2,558.3	11,282.4	11,850	22.7	44.3	-21.6	95.3	
1944	2,765.0	5,322.2	-2,557.2	8,740.1	11,088	24.8	48.0	-23.2	78.8	
1943	2,249.5	4,387.1	-2,137.6	6,182.8	10,327	21.8	42.5	-20.7	50.9	
1942	1,488.5	1,885.0	-396.5	4,085.2	8,328	17.6	22.6	-5.0	43.6	
1941	872.2	1,280.6	-377.4	3,648.7	6,743	12.9	19.5	-7.6	54.1	
1940	562.1	1,680.8	-1,118.7	3,271.3	5,636	10.0	12.1	-2.1	58.0	
1939	522.2	553.1	-50.9	3,152.6	5,278	9.5	10.5	-1.0	59.7	
1938	516.7	534.4	-17.7	3,101.7	5,257	9.8	10.2	-0.3	59.0	
1937	454.1	532.0	-77.9	3,084.0	4,653	9.8	11.4	-1.7	66.3	
1936	372.6	522.6	-150.0	3,006.1	4,335	8.6	12.3	-3.7	69.7	
1935	362.0	478.1	-116.1	2,886.1	3,984	9.1	12.0	-2.9	71.4	
1934	354.7	458.2	-103.5	2,730.4	3,510	9.3	13.1	-3.8	77.8	
1933	311.7	522.4	-210.6	2,596.5	3,227	8.1	13.9	-5.8	67.8	
1932	334.5	448.7	-114.2	2,375.8	4,699	7.1	9.5	-2.4	50.6	
1931	357.7	441.6	-83.8	2,261.6	5,728	6.2	7.7	-1.5	39.5	
1930	453.0	405.3	47.7	2,177.8	6,134	7.4	6.6	0.8	35.5	
1929	461.6	390.3	71.3	2,225.5	6,046	7.6	6.5	1.2	36.8	
1928	430.8	370.8	51.0	2,226.9	5,549	7.8	6.8	0.9	41.4	
1927	401.1	359.2	41.9	2,347.8	5,152	7.8	7.0	0.8	45.6	

Note -- Due to rounding, figures may not cross add.

(1) Includes adjustments in respect of prior years which do not affect current year's budgetary revenues and expenditures.

(2) For the calendar year ended in the fiscal year.

	Defence	Public Debt	Prov. and Municipal Govts.	Health, Welfare, Education	Veterans Affairs	International Co-operation	Transportation and Communication	Resources and Development	General Government	Unclassified	Total
1962	1,660.0	839.0	567.0	1,291.7	333.2	76.1	756.5	572.1	425.2	9.8	6,520.6
1961	1,537.9	707.6	563.4	1,074.1	292.3	85.3	631.2	536.2	386.9	6.2	5,958.1
1960	1,534.2	788.5	562.5	1,095.6	288.3	69.0	653.1	477.8	368.0	7.9	5,702.9
1959	1,452.5	648.0	562.5	1,021.4	288.8	61.2	607.8	420.5	378.4	5.5	5,364.0
1958	1,697.4	567.4	401.2	834.7	277.2	47.6	498.5	313.7	405.8	53.9	5,087.4
1957	1,703.8	534.1	405.7	671.3	251.5	46.8	408.2	285.2	410.6	53.8	4,899.0
1956	1,768.6	514.3	358.5	628.6	240.5	33.2	340.7	242.1	291.9	4.7	4,453.1
1955	1,827.9	502.3	362.6	584.1	240.1	34.8	358.9	214.8	286.5	5.3	4,275.3
1954	1,857.8	495.7	344.6	515.2	238.7	36.6	299.4	227.5	279.4	55.6	4,350.5
1953	1,972.2	464.9	341.7	466.4	214.4	31.6	260.0	214.3	236.9	77.2	4,337.3
1952	1,760.5	439.0	129.5	584.5	216.1	29.1	249.4	171.9	229.6	80.3	3,732.9
1951	1,551.0	459.0	123.5	539.3	216.5	15.0	219.0	244.9	221.8	92.9	2,901.2
1950	387.2	450.8	104.6	494.6	246.6	11.4	243.3	191.2	170.0	148.9	2,448.6
1949	166.0	475.2	101.7	428.8	277.0	15.0	200.2	179.5	150.3	79.4	2,175.9
1948	367.6	466.7	155.9	428.3	341.3	26.3	159.2	176.8	156.4	127.7	2,195.6
1947	2,942.1	437.6	108.8	401.3	604.8	4.6	133.2	131.7	165.1	220.3	2,634.2
1946	3,799.9	339.8	106.2	299.0	114.1	3.6	128.7	138.3	129.9	542.6	5,136.2
1945	4,214.6	282.1	109.6	81.2	69.5	1.3	142.8	132.2	138.6	175.4	5,245.6
1944	3,563.3	282.5	109.1	74.7	61.5	1.9	189.9	147.5	66.7	152.0	5,352.2
1943	1,867.7	171.6	35.5	58.4	58.3	0.7	71.4	98.0	69.5	106.7	4,387.1
1942	1,267.1	145.7	19.4	61.4	59.9	0.6	65.6	47.5	66.7	32.7	1,885.0
1941	128.7	34.6	19.4	70.9	60.4	1.3	119.7	78.7	38.3	23.8	1,249.6
1940	34.6	133.1	21.4	80.1	57.4	1.9	122.5	53.5	49.1	3.3	680.8
1939	32.7	132.1	21.3	103.5	56.2	1.5	105.4	29.2	41.5	11.0	534.4
1938	22.9	137.4	16.9	105.8	56.8	1.8	108.2	26.2	37.3	19.1	532.0
1937	17.2	134.5	17.8	102.8	55.1	0.4	98.4	36.2	36.5	33.3	532.6
1936	13.9	138.5	15.4	81.7	54.6	0.5	101.5	29.8	26.0	15.2	478.1
1935	13.2	139.7	15.3	54.2	55.9	0.8	110.9	22.2	30.4	16.6	458.2
1934	13.5	135.0	15.3	54.2	55.9	0.8	160.7	56.5	33.1	7.4	532.4
1933	17.9	121.1	14.0	55.3	61.1	1.2	80.7	37.6	33.5	26.4	448.7
1932	23.4	121.6	19.2	18.5	57.0	1.1	115.0	34.8	89.3	21.9	441.6
1931	21.8	121.6	14.4	9.1	50.1	1.2	107.8	35.9	82.9	14.5	405.3
1930	19.6	125.0	14.2	8.4	61.9		86.2	38.6	68.4	5.5	300.3
1929	17.6	128.9	12.7	9.4	61.9	0.6	82.1	31.7	22.7	10.3	379.8
1928	14.8	129.7	12.7	6.8	46.0	0.3	79.8	31.7	23.7	16.7	392.2

BUDGETARY REVENUES BY PRINCIPAL SOURCES
(in millions of dollars)

Year ending March 31	Income Tax											
	Individual	Corporate	Non- Resident	Estate Tax	Customs	Sales Tax	Other Commodity Taxes	Total Tax Revenue	Return on Investment	Post Office	Other Non-Tax Revenue	Total Revenue
1962	1,792.7	1,202.0	112.3	84.6	534.5	759.7	625.4	5,111.2	307.5	183.7	127.2	5,729.6
1961	1,711.2	1,276.6	88.2	84.9	498.7	720.0	633.6	5,015.8	283.8	173.6	144.5	5,617.7
1960	1,566.6	1,142.9	73.4	88.4	525.7	732.7	622.6	4,752.3	239.7	167.6	130.2	5,289.8
1959	1,353.5	1,020.6	61.2	72.6	486.5	694.5	598.5	4,247.4	221.2	157.5	128.6	4,754.7
1958	1,499.8	1,234.8	64.3	71.6	498.1	703.2	591.0	4,622.8	169.4	152.9	103.7	5,048.8
1957	1,400.5	1,268.3	76.4	79.7	549.1	717.1	556.8	4,647.9	206.6	145.8	106.2	5,106.5
1956	1,185.6	1,027.7	66.2	66.6	481.2	641.5	566.9	3,995.7	149.3	137.4	117.6	4,400.0
1955	1,183.4	1,020.6	61.3	44.8	397.2	572.2	494.0	3,773.3	133.5	131.3	85.2	4,123.5
1954	1,187.7	1,012.2	53.8	39.1	407.3	587.3	537.2	4,003.6	151.9	111.9	129.8	4,396.3
1953	1,189.0	1,280.1	53.7	38.1	389.4	566.2	530.1	3,997.6	116.9	111.9	134.4	4,360.8
1952	975.7	1,133.0	55.0	38.2	346.4	573.5	536.0	3,657.8	117.6	104.6	100.9	3,980.9
1951	652.3	809.3	61.6	33.6	295.7	460.1	472.7	2,785.3	89.5	90.5	147.2	3,112.5
1950	622.0	601.4	47.5	29.9	225.9	403.4	393.0	2,323.1	91.5	84.5	81.0	2,580.1
1949	762.6	536.8	43.4	25.5	223.0	377.3	467.5	2,436.1	107.9	80.6	146.8	2,771.4
1948	659.8	581.2	35.9	30.8	233.0	372.3	469.1	2,452.1	75.8	77.8	266.0	2,871.7
1947	670.5	621.3	35.1	23.6	237.4	298.2	486.5	2,427.6	69.4	73.0	437.9	3,007.9
1946	684.6	644.5	28.3	21.5	128.9	212.2	480.4	2,202.4	70.9	68.6	671.3	3,013.2
1945	672.8	617.7	28.5	17.3	115.1	209.4	493.8	2,154.6	60.8	66.1	405.8	2,687.3
1944	698.4	740.1	26.9	15.1	167.8	304.9	483.6	2,436.8	48.4	61.0	218.8	2,765.0
1943	484.2	782.6	28.0	13.3	139.0	232.9	406.7	2,066.7	41.2	48.9	92.7	2,249.5
1942	286.2	321.0	28.2	7.0	142.4	236.2	329.9	1,360.9	21.7	46.0	59.9	1,488.5
1941	103.5	195.6	13.0	-	130.8	179.7	329.9	778.1	14.9	40.4	38.8	872.2
1940	45.4	77.9	11.2	-	104.3	137.4	92.1	468.2	13.3	36.7	43.9	562.1
1939	46.9	85.2	9.9	-	78.8	122.1	93.3	436.2	13.1	35.5	17.4	502.2
1938	40.4	69.8	10.2	-	93.5	138.0	97.3	449.2	13.1	35.6	18.8	516.7
1937	35.5	58.0	8.9	-	83.8	112.8	88.0	387.0	11.2	34.3	21.6	454.1
1936	33.0	42.5	7.2	-	74.0	77.6	83.3	317.6	10.6	32.5	11.9	372.6
1935	25.2	33.8	5.8	-	76.6	72.4	89.1	304.9	10.9	31.2	15.0	362.0
1934	29.2	27.4	4.8	-	66.3	61.4	83.0	272.1	11.1	30.9	15.6	324.7
1933	26.0	36.0	-	-	70.1	56.8	65.6	254.5	11.2	31.0	15.0	311.7
1932	24.8	36.5	-	-	104.1	41.7	68.3	275.4	9.4	32.2	17.5	334.5
1931	26.6	44.4	-	-	131.2	20.2	74.3	296.7	10.4	30.2	20.4	357.7
1930	27.2	42.0	-	-	179.4	44.1	86.5	378.8	13.5	33.3	27.4	453.0
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1928	23.2	34.3	-	-	157.0	79.9	75.8	365.0	10.9	31.6	23.3	430.8
1927	18.1	30.0	-	-	141.9	81.2	75.8	347.0	8.6	29.1	16.4	401.1



II

PROCEDURES IN PREPARING THE ANNUAL BUDGETExpenditure Control

In Canada the instrument for the expenditure control side of the Federal Government budgetary equation is the Treasury Board, a statutory subcommittee of the Privy Council. This instrument was fashioned at the outset of Confederation by Order in Council dated July 2, 1867, and received its present statutory form in 1952 with the enactment of the Financial Administration Act from which it derives its general powers. Other statutes, of course, over the years have given specific powers to the Board with respect to financial commitments authorized by the various statutes.

The general powers of the Treasury Board are set out in Section 5 of the Financial Administration Act, which reads:

5. (1) The Treasury Board shall act as a committee of the Queen's Privy Council for Canada on all matters relating to finance, revenues, estimates, expenditures and financial commitments, accounts, the public service, and general administrative policy in the public service referred to the Board by the Governor in Council or on which the Board considers it desirable to report to the Governor in Council, or on

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The general powers of the Treasury Board are set out in Section 2 of the Financial Administration Act, which reads:

2. (1) The Treasury Board shall act as a committee of the Queen's Privy Council for Canada on all matters relating to finance, revenues, estimates, expenditures and financial commitments, accounts, the public service, and general administrative policy in the public service referred to the Board by the Governor in Council or on which the Board considers it desirable to report to the Governor in Council, or on



1 which the Board considers it necessary to act
2 under powers conferred by this or any other
3 Act.

4 (2) The Governor in Council may authorize
5 the Treasury Board to exercise all or any of
6 the powers, other than powers of appointment,
7 of the Governor in Council under the Civil
8 Service Act, the Civil Service Superannuation
9 Act, the Defence Services Pension Act, and
10 Parts II to VI of the Royal Canadian Mounted
11 Police Act.

12 (3) The Treasury Board may prescribe from
13 time to time the manner and form in which the
14 accounts of Canada and the accounts of the
15 several departments shall be kept, and may
16 direct any person receiving, managing or dis-
17 bursing public money to keep any books, records
18 or accounts that the Board considers necessary.

19 (4) The Treasury Board in the exercise of
20 its powers under this or any other statute is
21 subject to any direction given to it by the
22 Governor in Council, and the Governor in
23 Council may by order amend or revoke any
24 action of the Board. 1951 (2nd Sess.).

25 C. 12, s. 5.

26 Co-ordination with other aspects of the
27 budgetary process is achieved because the Chairman of
28 the Board is, by statute, the Minister of Finance and,
29
30

under powers conferred by this or any other

(2) The Governor in Council may authorize the Treasury Board to exercise all or any of the powers, other than powers of appointment, of the Governor in Council under the Civil Service Act, the Civil Service Superannuation Act, the Defence Services Pension Act, and Parts II to VI of the Royal Canadian Mounted Police Act.

(3) The Treasury Board may prescribe from time to time the manner and form in which the accounts of Canada and the accounts of the several departments shall be kept, and may direct any person receiving, managing or disbursing public money to keep any books, records or accounts that the Board considers necessary.

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Co-ordination with other aspects of the



1 similarly, the staff is provided by the Department of Finance.
2 The Board exercises expenditure control within the budgetary
3 framework ordinarily through its control of the Estimates
4 requirements of the departments of government and, where
5 applicable, Crown agencies. This control, in turn, flows
6 from the nature of the constitutional relationship of
7 the Crown to Parliament.

8 Treasury Board, subject to ultimate approval by
9 Cabinet, determines on behalf of the Crown what will be
10 sought of Parliament in the way of funds for carrying
11 on public business. In keeping with the general
12 budgetary concept of determining needs in so far as
13 possible on an annual basis, prime emphasis is laid on
14 what are called the Main Estimates. These are called for
15 from departments and agencies once a year and, again in
16 so far as possible, are designed to provide for all the
17 financial needs of departments and agencies for the
18 fiscal year in question.

19 Departments often find it impossible to foresee
20 all requirements so additional requirements are catered
21 to by the Supplementary Estimates which are tabled early
22 in the parliamentary session, often prior to consideration
23 of the Main Estimates by the House of Commons. Also,
24 other unforeseen situations may arise and the system is
25 sufficiently flexible to permit the tabling of Further
26 Supplementaries, although these are avoided if possible.
27 There are always Final Supplementaries near the close
28 of any fiscal year to deal with overruns of expenditure
29 or certain legal problems for which the information is
30 not available until this time, such as, for example,

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1 the appropriation for the C.N.R. deficit.

2 In so far as the budgetary process is concerned
3 the key financial discussions by the Treasury Board
4 take place on the Main Estimates. The Supplementaries
5 are, or ought to be, the exceptions to the rule, although
6 a certain level of Supplementaries during the course of
7 each year can be assumed. The broad aim of the Board is
8 to fit the requirements of the government departments
9 and agencies into the framework of budgetary requirements.
10 A subordinate and related objective of the Board is to
11 secure accurate Estimates, i.e., they should, as far as
12 can be determined, be a full statement of the total
13 financial need of the public service for the fiscal
14 year and, conversely, they should not confuse the
15 budgetary picture by containing greater provision than
16 can be expended in the fiscal year. Unless the Estimates
17 in their total form for the public service as a whole
18 are reasonably accurate, the Budget will be less
19 effective in achieving the degree of surplus, balance
20 or deficit as the Government may regard as appropriate
21 in the circumstances prevailing.

22 Accordingly, the Board in the budgetary process
23 has two main objectives: rationalizing requirements of
24 all the departments of government and fitting them into
25 the budgetary requirements as a whole, and achieving
26 realistic Estimates of whatever is accepted as the
27 financial requirements of the public service for the
28 fiscal year. The Treasury Board is assisted in these
29 tasks by a staff which specializes functionally in
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1 several departments and agencies of the government.

2 The task of the Treasury Board staff is to
3 provide information and advice to the Ministers when they
4 are considering the Estimates requirements of the depart-
5 ments in general and in detail.

6 The process of considering the Main Estimates
7 begins with a call by the Board for the receipt of
8 departmental requirements by a set date, usually
9 November 1st, for the fiscal year commencing the
10 succeeding April 1st. The call is sent out several
11 months prior to November 1st. Upon receipt of all
12 Estimates two processes are initiated concurrently.
13 The staff begins a detailed examination of the Estimates
14 of each department through the officers specializing in
15 each area, Vote by Vote, and subdivision by subdivision,
16 with all the supporting information. Discussions are
17 initiated with the appropriate departmental officers to
18 fill in gaps in the information or to clarify other
19 aspects and to check the accuracy of the calculations.
20 At the same time the total of all departmental and agency
21 requirements is added up and this figure, together with
22 the best current appreciation of the expected revenue
23 for the fiscal year in question, is placed before the
24 Minister of Finance. The Deputy Minister and other senior
25 officers of the Department of Finance concurrently advise
26 and discuss with the Minister the general economic and
27 fiscal prospects for the coming year.

28 This is the first tentative appraisal of the
29 balance of ways and means in the context of current and
30 expected economic and fiscal conditions. In the light

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This is the first tentative appraisal of the

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1 of the information he thus has, the Minister will give
2 such directions as he thinks appropriate which officials
3 of the Treasury Board Division then use as guide lines
4 in their discussions with the departments. In the
5 light of these reviews, further meetings take place with
6 senior levels in the departments in an attempt to identify
7 areas of priority and other aspects of policy that will
8 be of vital importance to the Board in its consideration
9 of the Estimates.

10 At this time agreements at the official level,
11 usually after discussion by departmental officials with
12 their Ministers, can be reached with respect to the
13 deferral of some proposals or the achievement of certain
14 aims by different means or different time phasing and
15 these can have an appreciable effect on the level of
16 the Estimates requirements of the department that the
17 Board is finally asked to consider.

18 The final stage is reached with a heavy
19 schedule of meetings of the Board over a two to three
20 week period, usually ending by mid-December, during
21 which the Board takes up in turn the Estimates of each
22 department. The Board commences its work with a general
23 review of expected economic and fiscal conditions,
24 namely the total of the requirements of all departments
25 and agencies, and a brief on the current and anticipated
26 economic environment, plus such special problems as
27 may be present. The Board then addresses itself to the
28 task of rationalizing the requirements of all departments
29 and fitting them into the overall budgetary situation.
30 This is a complex task of weighing the detail in the

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such directions as he thinks appropriate which officials

1 context of the general: one which has to be done in the
2 context of each department and then in the context of
3 all departmental requirements taken together. It
4 involves the weighing of such diverse problems as
5 advancing general industrial or scientific research, the
6 advancement of agricultural service, improvement in
7 vocational training and a variety of other widely
8 disparate claims, not the least of which is that of
9 defence, to quote just a few examples. Current
10 performance of operations is also brought under review.

11 It is at this point that the value of the
12 information placed before it by Treasury Board staff,
13 based on the latter's familiarity with the departmental
14 policies and operations, is vital. As the Estimates
15 of a Department come before the Board it is represented
16 by its Minister and its senior officials and the Board
17 is assisted by the Secretary, Assistant Secretaries and
18 other officials of Treasury Board Division responsible
19 directly for the department under discussion. After
20 listening to the presentation of the main heads of
21 expenditure, particularly those involving new expenditure,
22 and such additional information as the staff may bring
23 out, the Board makes its decision with respect to the
24 general level to be provided in the Vote and may make
25 such other decisions as the deletion of specific
26 projects or the modification of proposals. Further
27 discussion may take place but after such further
28 discussion the Board's decision is final unless altered
29 by Cabinet.

30 When the Board has completed its review of all

When the Board has completed the review of all

by subject.

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information placed before it by Treasury Board staff.

It is at this point that the value of the

performance or operations is also brought under review.

defence, to quote just a few examples. Current

disparate claims, not the least of which is that of



1 departments, the Estimates are adjusted according to its
2 decisions, are placed before Cabinet for approval, and
3 in due course, tabled in the House of Commons. The
4 total of the fiscal requirements of the public service
5 for the new fiscal year having thus been determined, it
6 is then carried into the budgetary discussions which
7 result in the budget decisions which are placed before
8 the House of Commons by the Minister of Finance in his
9 annual Budget Speech.

10 While the main financial outline and many
11 important details have been decided in the process
12 just described, the sheer size of expenditures and
13 the complexities of the many issues coming before
14 the Board make it impossible to resolve all matters
15 at this time. Some are dealt with in greater detail
16 by the Board during the remainder of the year.

17 To deal with these, and other aspects of its
18 responsibilities, the Board usually meets once a week.
19 At these meetings the Board may deal with a wide
20 variety of subjects. For example, there may have been
21 approved a civil aviation terminal programme for the
22 Department of Transport at a given overall amount. In
23 so doing there may have been considered a specific list
24 of projects against each of which there would have been
25 an estimate of the anticipated cost to arrive at the
26 total. There would also have been a lengthy discussion,
27 but in a general way, of the varying pressures and
28 problems associated with the development of civil aviation
29 facilities as represented by these projects. The Board
30 would not, however, have resolved whether, say, the



1 terminal at city "X" is justified at a cost of \$3 million
2 or \$5 million, a judgment which only could be reached by
3 consideration of the detailed factors bearing on that
4 particular locality.

5 Such information is placed in sufficient detail
6 before the Board at one of its weekly meetings with
7 specific proposals which the Board can accept, modify or
8 reject. Again, the order may be reversed and, in
9 anticipation of the forthcoming estimates for the next
10 fiscal year, a department may have its detailed
11 planning advanced sufficiently to bring forward to one
12 of the weekly meetings of the Board the detailed
13 proposals for approval in principle of a project to
14 be included in the next year's Estimates, subject to
15 the general availability of funds. Such approval in
16 principle and subsequent or advance consideration in
17 detail by the Board is typical of the Board's work in
18 many other areas.

19 The procedure for the Main Estimates operation
20 is repeated as required for the Supplementary Estimates,
21 though the general rule is that the Main Estimates should
22 be, as far as possible, the statement of the financial
23 needs of the public service for the year and the
24 Supplementaries should be the exceptions.

25 Clearly, the Treasury Board work, to be effective,
26 depends on adequate information and informed advice.
27 Several techniques have been developed to this end. The
28 most important is specialization by the Treasury Board
29 officers in the operations of a given department or a
30 part thereof. The second is the creation of advisory



1 committees of officials to give the Board informed advice
2 on technical matters, e.g., the Treasury Board Advisory
3 Committee on Accommodation Standards, or the Treasury
4 Board Committee on Foreign Service Allowances. These
5 provide the information the Board must have if it is to
6 make the right judgment.

7 Efforts are currently under way to improve
8 further the overall effectiveness of Treasury Board
9 control of expenditure. Two of the most important
10 are the application of work and productivity measurements
11 as analytical tools by the staff in their evaluation of
12 manpower requirements of departments, and forward fore-
13 casting of expenditure requirements. The first has the
14 advantage of offering a dual benefit in that, over and
15 above the housekeeping advantage of permitting the
16 government to perform its functions at less direct cost,
17 improved efficiency generally will mean more efficient
18 administration of public programmes at either lesser
19 costs or greater yield for the funds invested. It is
20 part of Treasury Board policy to encourage and facilitate
21 efforts by departments to have skilled organizations to
22 improve productivity and to take advantage of expert
23 advice in this field in or outside the public service.

24 At the time of Main Estimates last year,
25 departments were asked to provide a three-year forward
26 forecast of expected Estimates requirements when sub-
27 mitting their 1963-64 Estimates. They have also been
28 advised that it is hoped to extend this to a five-year
29 projection as soon as practicable.

30 In the review of any one year's proposed



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1 expenditures only approximately twenty per cent is
2 amenable to alteration. The only way to enlarge the
3 scope for decision is to project forward and establish
4 an order of priorities in this way. It is anticipated
5 that after the necessary experimentation has been
6 completed and reasonably effective forecasts are being
7 obtained, these, coupled with performance and activity
8 budgeting, will effect a fundamental alteration in the
9 manner in which expenditures are reviewed.

10 Loans, Investments and Advances

11 The alternative to financing outlay by
12 appropriation is what may be variously described as a
13 loan, an investment or an advance. Whether a public
14 outlay is financed by these or by an appropriation will
15 depend upon the assessment of the circumstances. Wherever
16 the outlay is for an activity which is expected to be
17 self-liquidating, it is financed by a loan, an investment
18 or an advance. An example would be the construction of
19 the St. Lawrence Seaway. Where an outlay is for several
20 purposes or the ultimate purpose is uncertain, it may
21 also be financed by a loan until this can be determined.
22 An example would be acquisition by the Federal Government
23 of the area known as the LeBreton "Flats", in Ottawa.
24 When the ultimate usage has been determined, the land
25 which will be used for federal buildings will be charged
26 to the appropriations of the Department of Public Works;
27 the land for public park purposes, to the National
28 Capital Fund; and that portion which will be self-
29 liquidating, i.e., sold or leased to private entre-
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preneurs for private development, will retire a corresponding amount of the loan in the ordinary manner. Where the outlay is for the purpose of indirect financing of further outlay, for example, housing, the outlay is always on a loan basis. Advances may be made to departments or Crown corporations for working capital or to carry large inventory over a prescribed period, for example, the Revolving Fund in the Department of Defence Production.

Loans, investments and advances not unnaturally enter prominently into financing of Crown corporations. The criteria for making loans or advances closely relate to the criteria for establishing Crown corporations. Crown corporations have a revenue arising from a variety of sources including the charges for their activities in the form of fees, commissions or receipts from sales of goods or services. As indicated, they receive loans to be disbursed as loans to others or to finance their activities which are anticipated to be self-liquidating. They also receive loans as working capital or inventory financing which may or may not be self-liquidating. To the extent that their revenues, plus loans and advances, are less than required to cover their activities, funds to cover their expenditures are appropriated. The degree to which appropriations finance the activities of Crown corporations varies widely. When they receive appropriations they are subject to the same scrutiny as departments. All Crown corporation activities are covered by their capital or operating budgets. Their capital budgets must be approved by Council on the recommendation



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1 of the Minister directly responsible and the Minister
2 of Finance. Before the latter makes his recommendation,
3 the operating and capital budgets, particularly the
4 latter, are reviewed with particular emphasis on possible
5 future charges on the Treasury. If the corporation is
6 largely dependent upon appropriations, the effective
7 examination of the corporation's activities will
8 naturally take place during the Estimates process.

9 Loans, investments and advances are carried as
10 active assets and the estimated disbursements during
11 the fiscal year in question are carried into the cash
12 budget estimate.

13 Authority for loans, investments and advances
14 may be continuing or only for the year in question.
15 Authority is provided by appropriate Votes in the
16 Estimates or in some enabling statute.

17 Revenue Forecasts and Tax Adjustments

18 The annual Budget statement of the Minister of
19 Finance brings together the programmes of Government
20 expenditures and the plans for raising the money to
21 meet these expenditures. The Treasury Board Division as
22 described in the previous pages conducts the examination
23 of the prospective spending plans, the Taxation Division
24 examines plans and requests for modifying the existing
25 sources of tax revenue, and the Comptroller of the Treasury
26 assesses the prospective non-tax revenues, as well as
27 contributing to the appraisal of cash requirements.

28 The examination of tax proposals and other
29 preparations for the Budget necessitate a series of
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1 revenue forecasts. Preliminary forecasts of revenue
2 for the following year are made during the autumn to
3 provide one of the important factors which the Minister
4 of Finance and his colleagues must have in mind as they
5 examine and appraise the spending programmes. Next
6 it is necessary to make estimates of the effects upon
7 revenue of all the requests and proposals for tax
8 changes large and small that are brought before the
9 Minister of Finance. As the budget date approaches the
10 earlier revenue forecasts are revised, improved and
11 refined until finally the forecast of revenue before
12 tax changes for use in the Budget Speech emerges. When
13 tax changes have been decided the revenue effects of
14 these changes on a full year's basis and for the fiscal
15 year covered by the Budget are estimated and the Budget
16 forecast of revenues after tax changes is then produced.
17 Finally, the trend of revenues is periodically re-
18 examined as the year progresses since frequent re-
19 assessment of monthly revenues and expenditures must
20 be made in order to anticipate the Government's cash
21 position in the week and months ahead.

22 The revenue forecasting work done by the
23 Taxation Division depends to a large extent on basic
24 information obtained from other sections. The forecast
25 of revenue for a fiscal year is based on information
26 concerning the economic trends and developments and
27 expectations for the coming year which is prepared in
28 the Economic Analysis section of the Department and
29 from other forecasting sources. One of the more
30 important and complex aspects of estimating revenues



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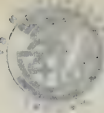
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1 is a continuing and careful appraisal of both general
2 and detailed prospects of economic trends. In this
3 respect senior officials of the Department of Finance
4 maintain intimate contacts with appropriate officials
5 in other government departments, particularly those
6 in the Dominion Bureau of Statistics, Trade and
7 Commerce, Labour, Agriculture and the Bank of Canada.
8 While the Department does not formally consult with
9 non-governmental persons or agencies it does, of course,
10 study with interest all available information and views.

11 On the basis of the projections thus obtained
12 conclusions are formed as to the yield of various
13 revenue sources in the next fiscal year by applying
14 certain factors to the estimates of revenue in the
15 current year. These factors are derived through the
16 establishment of relationships between taxes and
17 economic indicators on the basis of past experience.
18 As a check, the resulting forecast of revenues for
19 the following fiscal year is compared with a mechanical
20 projection of monthly tax collections from current
21 levels into the next year.

22 The work of budget preparation also includes
23 an examination of a very wide range of proposals and
24 requests for tax changes. The fiscal measures announced
25 in the Budget may include important changes in the rates
26 of tax or new measures which use taxes to achieve
27 particular ends or to influence certain sectors of the
28 economy. The decisions of the Minister of Finance
29 (which are, of course, subject to Cabinet concurrence)
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1 particular fiscal measures are usually made only after
2 examination of a large number of packages and alter-
3 natives. These must be developed with examples, tables
4 and explanations by the Taxation Division.

5 Regardless of whether there are any major tax
6 changes every year's Budget Speech announces a number
7 of technical tax changes. Although the consideration
8 of tax changes is a continuous process throughout the
9 year it has long been the almost invariable custom to
10 introduce amendments to the taxing statutes only in
11 connection with a budget presentation. Month by month
12 throughout the year the Minister of Finance receives
13 a great many requests for changes in the tax laws.
14 Many of these requests deal with technical matters,
15 others concern situations which taxpayers think unfair
16 or they concern particular commodities or industries
17 for which the applicant would like to see more
18 favourable tax treatment. In addition to representa-
19 tions from taxpayers the officials who administer the
20 taxing statutes and officials of other divisions of
21 the Department of Finance conduct studies of various
22 sections of the tax laws or tax structure and produce
23 recommendations designed to encourage economic develop-
24 ment, to provide greater equity, to ease administration
25 or to plug loopholes. All of these representations and
26 recommendations are examined by officials of the
27 Taxation Division; many of them are examined carefully
28 at meetings with officials of other Departments
29 concerned; many become the subject of special memoranda
30 to the Minister throughout the year. Finally all



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5 to the Minister throughout the year. Finally all
6 requests and proposals for tax changes are summarized
7 and brought together in a budget meeting agenda book
8 for consideration by the Minister of Finance and the
9 Minister of National Revenue and their senior advisers
10 at a series of pre-budget meetings. At these meetings
11 the Minister of Finance makes decisions concerning
12 each item and those requiring action are recorded for
13 inclusion in the budget resolutions and the bills
14 to amend the taxing statutes.



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III

CASH MANAGEMENT IN THE FEDERAL GOVERNMENT -
PRACTICES, PROCEDURES, AND RELATIONS WITH
THE BANKS

The Financial Administration Act requires that all public money be deposited to the credit of the Receiver General and that the Minister of Finance establish, in the name of the Receiver General, accounts with such banks and fiscal agents as he designates for the deposit of such money. In practice, the Federal Government maintains cash balances in the name of the Receiver General on deposit with the Bank of Canada, the chartered banks, two Quebec savings banks, and banks in London, New York, Paris and Bonn. By statutory definition, the sum total of these deposits constitutes the Consolidated Revenue Fund.

The Canadian dollar operating account is maintained with the Bank of Canada, i.e., daily receipts and disbursements are reflected through this account. The cash that is not required for daily operations is deposited with the chartered banks on the basis of a percentage allocation established by agreement amongst all the banks and communicated to the Department of Finance by the Canadian Bankers' Association. Transfers between the accounts held with the Bank of Canada and the chartered banks may be made daily at the request of the Bank of Canada either to maintain, when possible, a balance with the Bank of Canada within the normal range of \$30 million to \$50 million, or relatively infrequently to produce a balance outside this range

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WITH SUCH BANKS AND FISCAL AGENTS AS HE DESIGNATES
FOR THE DEPOSIT OF SUCH MONEY. IN PRACTICE, THE
FEDERAL GOVERNMENT MAINTAINS CASH BALANCES IN THE NAME
OF THE RECEIVER GENERAL ON DEPOSIT WITH THE BANK OF
CANADA, THE CHARTERED BANKS, TWO QUEBEC SAVINGS BANKS,
AND BANKS IN LONDON, NEW YORK, PARIS AND BOMBAY. BY
STATUTORY DEFINITION, THE SUM TOTAL OF THESE DEPOSITS
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1 consistent with the central bank's current monetary
2 objectives. (Deposits with the chartered banks form a
3 part of the bank's total deposit liabilities against
4 which certain minimum cash reserves must be maintained
5 by the banks.) The balances in sterling are usually
6 maintained at a level of about £2 million, in U.S.
7 dollars at about \$20 million and French francs and
8 German deutschemarks at somewhat lower levels related
9 to current requirements. If these balances require
10 replenishing, purchases of the various currencies are
11 made from the Bank of Canada with cash in the Canadian
12 dollar account maintained with the Bank of Canada.

13 Daily, Canadian dollar receipts, whether in
14 the form of cash receipts or cheques to be cleared,
15 are deposited to the credit of the Receiver General
16 account with the Bank of Canada by the agencies of
17 the Bank throughout Canada through which such monies
18 are received. Similarly, each day, the value of
19 government cheques cashed by the chartered banks and
20 presented for payment to the various Bank of Canada
21 agencies are charged to the same Receiver General account.
22 In the latter case, redemption of the cheques presented
23 to the Bank is effected by payment to the Bank of
24 Canada by a cheque drawn on the Receiver General account
25 and signed on behalf of the Minister of Finance.

26 As indicated, moneys not required for daily
27 operations are on deposit with all the chartered banks.
28 The allocation amongst the banks is in accordance with
29 a percentage formula determined by the banks and
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Bankers' Association from time to time. The current allocation is:

Montreal	21.73 per cent
Royal	21.55
Imperial-Commerce	25.03
Nova Scotia	10.80
Nationale	6.96
Toronto-Dominion	9.92
Provinciale	3.92
Mercantile	0.09
	<hr/>
	100.00 per cent
	<hr/>

This formula is based primarily on a determination of the work done by each bank on all types of government business and takes into account, it is understood, such factors as government cheques, money orders, bond coupons cashed, deposit transfers processed, etc. Transfers of moneys to and from the Bank of Canada and the chartered banks are allocated amongst the latter on the basis of this formula, with one exception.

There is no undertaking or agreement with the chartered banks that the Receiver General shall maintain a minimum amount of cash on deposit with them and there is no firm rule concerning the total amount of cash which the Receiver General may or should hold. The cash position is affected by a number of factors, such as normal and seasonal variations in revenues and expenditures, the timing of debt management



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Imperial-Commercia	25.03
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Mercantile	0.09

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1 operations, and fluctuations in the size of the Exchange
2 Fund. However, experience has shown that if total cash
3 balances fall much below the average weekly cash
4 requirements for any significant length of time,
5 difficulties may arise.

6 For many years prior to November 1, 1962 by
7 agreement with the Canadian Bankers' Association, the
8 proceeds of government or government-guaranteed bond
9 issues were deposited in the banks through which they
10 were received and the differences between actual
11 balances and formula percentage balances resulting from
12 these redeposits were progressively adjusted on the 1st
13 and 15th day of each month after the issue date of the
14 securities. On the first adjustment day, one-fifth of
15 the difference was adjusted; on the second adjustment
16 day, one-quarter; on the third adjustment day,
17 one-third; on the fourth adjustment day, one-half;
18 and on the fifth adjustment day, the balance.
19 Commencing November 1, 1962, at the request of the
20 Canadian Bankers' Association, the redeposit feature
21 became applicable only to Canada Savings Bond
22 proceeds.

23 It should perhaps be noted that a redeposit
24 in respect of sales of all issues of bonds is made to
25 the two Quebec savings banks which are not party to
26 the agreements entered into with the Canadian Bankers'
27 Association. These redeposits are progressively
28 reduced over two and one-half months on the same basis
29 as the redeposits of Canada Savings Bond proceeds in
30 the chartered banks.

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REDEMPTIONS AND ADJUSTMENTS

For many years prior to November 1, 1952 by agreement with the Canadian Bankers' Association, the proceeds of government or government-guaranteed bond issues were deposited in the banks through which they were received and the differences between actual balances and formula percentage balances resulting from these deposits were progressively adjusted on the 1st and 15th day of each month after the issue date of the securities. On the first adjustment day, one-fifth of the difference was adjusted; on the second adjustment day, one-quarter; on the third adjustment day, one-third; on the fourth adjustment day, one-half; and on the fifth adjustment day, the balance. Commencing November 1, 1952, at the request of the Canadian Bankers' Association, the deposit feature became applicable only to Canada Savings Bond

It should perhaps be noted that a deposit in respect of sales of all issues of bonds is made to the two Quebec savings banks which are not party to the agreements entered into with the Canadian Bankers' Association. These deposits are progressively reduced over two and one-half months on the same basis as the deposits of Canada Savings Bond proceeds in the chartered banks.



1 By arrangement with the chartered banks they
2 allow interest on minimum monthly Receiver General
3 balances deposited with them which are in excess of an
4 aggregate of \$100 million. The interest is calculated
5 on the basis of the weekly average accepted treasury
6 bill tender rate for three months treasury bills less
7 10 per cent, such interest being paid quarterly.

8 In addition to the foregoing accounts with
9 the chartered banks, accounts which concern departmental
10 banking, imprest and revenue trust accounts are maintained
11 with the chartered banks as well as accounts in respect
12 of the issue of warrants and letters-of-credit.

13 Authorized departmental banking and imprest accounts
14 may be established for a variety of special purposes
15 while revenue trust accounts are established for the
16 temporary deposit of public moneys which are eventually
17 transferred to the Receiver General account with the
18 Bank of Canada in Ottawa. Warrants for unemployment
19 insurance benefits and hog premium payments are drawn
20 on the Comptroller of the Treasury, and in the former
21 case imprest bank accounts are maintained in the name
22 of the Comptroller for the clearing and cashing of
23 warrants, while in the latter, the banks cashing warrants
24 recover directly from the Comptroller. Letter-of-credit
25 arrangements are used to authorize the Treasury Officers
26 in London, Paris and Bonn to draw moneys on the banks
27 with which Receiver General accounts are maintained.
28 (Cheques in reimbursement of letter-of-credit and
29 direct payments drawn against the particular Receiver
30 General accounts are issued in Ottawa.) In addition,



allow interest on minimum monthly Receiver General balances deposited with them which are in excess of an aggregate of \$100 million. The interest is calculated on the basis of the weekly average accepted treasury bill tender rate for three months treasury bills less 10 per cent, such interest being paid quarterly.

In addition to the foregoing accounts with the chartered banks, accounts which concern departmental banking, interest and revenue trust accounts are maintained with the chartered banks as well as accounts in respect of the issue of warrants and letters-of-credit.

Accounts are also maintained for a variety of special purposes while revenue trust accounts are established for the temporary deposit of public moneys which are eventually transferred to the Receiver General account with the Bank of Canada in Ottawa. Warrants for unemployment insurance benefits and hog premium payments are drawn on the Comptroller of the Treasury, and in the former case interest bank accounts are maintained in the name

of the Comptroller for the clearing and cashing of warrants, while in the latter, the banks cashing warrants recover directly from the Comptroller. Letters-of-credit arrangements are used to authorize the Treasury Officers in London, Paris and Bonn to draw moneys on the banks with which Receiver General accounts are maintained.

(Cheques in reimbursement of letters-of-credit and direct payments drawn against the particular Receiver General accounts are issued in Ottawa.) In addition,



1 a letter-of-credit account is maintained with a bank
2 in Ottawa, the foreign correspondents of which provide
3 funds for the foreign missions of the Departments of
4 External Affairs and Trade and Commerce.

5 The designation of the particular banks in
6 which the foregoing accounts are kept, or with which
7 arrangements are made, is by virtue of the Financial
8 Administration Act the prerogative of the Minister of
9 Finance. In practice, the designation of depositories
10 in respect of government departments requiring banking
11 services in Canada is in accordance with an agreement
12 between the Minister and the Canadian Bankers'
13 Association. This agreement reads, inter alia, as
14 follows:

15 "In designating the branch of a
16 chartered bank to accept government deposits
17 and transact government business in a community,
18 the Minister would normally designate that bank
19 which had the longest established branch in the
20 community.

21
22 If the longest established branch is
23 more than one-quarter of a mile from the
24 government offices for which banking services
25 are required, and if there are one or more
26 branch banks within that distance, the Minister
27 would normally designate the bank with the
28 longest established branch within the distance."

29 It should be pointed out, however, that the
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in the longest established branch is more than one-quarter of a mile from the government offices for which banking services are required, and if there are one or more branch banks within that distance, the Minister would normally designate the bank with the longest established branch within the distance."

It should be pointed out, however, that the



1 ultimate decision as to what bank would be designated
2 must in all cases rest with the Minister of Finance,
3 who would retain the right to make designations other
4 than on the foregoing basis if in his opinion in the
5 interests of safety or efficiency or for other reasons
6 it is in the public interest to do so.

7 Generally speaking, no bank branches are
8 designated in the City of Ottawa, all public moneys
9 being deposited in the Receiver General account with
10 the Bank of Canada. (The Receiver General accounts
11 with the chartered banks are not used for this
12 purpose.) One exception concerns income tax cheques
13 received by the Department of National Revenue in
14 Ottawa, and these are deposited in the banks on which
15 they are drawn, the proceeds being then transferred to
16 the Receiver General account with the Bank of Canada.

17 One further aspect in respect of banking
18 services provided to the federal government which
19 should be mentioned concerns those provided Crown
20 corporations. Pursuant to the Financial Administration
21 Act, such a corporation may, with the approval of the
22 Minister of Finance, maintain in its own name one or
23 more accounts in the Bank of Canada or in such bank in
24 Canada or financial institution outside of Canada as
25 the Minister of Finance may approve.

26 A simple application of the formula is not
27 possible due to the large number of accounts involved,
28 the fact that they are under different corporate
29 managements, and the need to ensure that there is some
30 continuity over a period of time in each corporation's



ultimate decision as to what bank would be designated must in all cases rest with the Minister of Finance, who would retain the right to make designations other than on the foregoing basis if in his opinion in the interests of safety or efficiency or for other reasons it is in the public interest to do so.

Generally speaking, no bank branches are designated in the City of Ottawa, all public moneys being deposited in the Receiver General account with the Bank of Canada. (The Receiver General accounts with the chartered banks are not used for this purpose.) One exception concerns income tax cheques received by the Department of National Revenue in Ottawa, and these are deposited in the banks on which they are drawn, the proceeds being then transferred to the Receiver General account with the Bank of Canada.

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1 banking arrangements so that it may receive the best
2 service. Consequently, it is not feasible to transfer
3 balances from one bank to another to maintain percentage
4 allocations strictly in accordance with the formula
5 percentages agreed upon in respect of the Receiver
6 General balances on deposit. Instead, when new
7 corporations are established or new banking facilities
8 are required, the practice has been to designate those
9 banks which have less than their share of the total
10 Crown corporation deposits in an effort to apportion
11 the business on a fair and equitable basis.

12 No attempt is made to interfere with the daily
13 management of the Crown corporations, but their month-
14 end bank balances are scrutinized to determine whether
15 there are funds on deposit which would appear to be
16 in excess of current requirements. If there are funds
17 which are surplus to such requirements, it is expected
18 that they will be invested in securities of the Govern-
19 ment of Canada, or placed in interest-bearing deposits
20 in the Consolidated Revenue Fund. In some instances,
21 surplus funds may be placed in time deposits with the
22 chartered banks where they are readily available for
23 the Crown corporation's current needs, if necessary.
24 The Financial Administration Act provides that a
25 corporation shall if so directed by the Minister of
26 Finance with the concurrence of the appropriate
27 Minister, and may if the Minister of Finance and the
28 appropriate Minister approve, pay all or any part of
29 the money of the corporation to the Receiver General
30 to be placed to the credit of a special account in the



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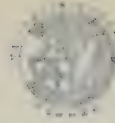
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1 Consolidated Revenue Fund in the name of the corporation,
2 and the Minister of Finance may pay out, for the
3 purposes of the corporation, or repay to the corporation,
4 all or any part of the money in the special account.

5 The statute also provides that interest may
6 be allowed and paid from the Consolidated Revenue Fund
7 in respect of money placed to the credit of such special
8 account, in accordance with and at rates fixed by the
9 Minister with the approval of the Governor in Council.
10 Order in Council P.C. 1959-681 of June 4, 1959, approved
11 that the rate would be one-half of one per cent below
12 the average for the month of the weekly average accepted
13 tender rates of three months treasury bills, as
14 determined and announced by the Bank of Canada.

15 The Financial Administration Act also provides
16 that if the Minister of Finance and the appropriate
17 Minister so direct, with the approval of the Governor
18 in Council, the particular corporation shall pay to the
19 Receiver General so much of the money administered by
20 it as the appropriate Minister and the Minister of
21 Finance consider to be in excess of the amount
22 required for the purposes of the corporation, and any
23 money so paid may be applied towards the discharge of
24 any obligation of the corporation to Her Majesty, or
25 may be applied as revenues of Canada. In practice,
26 this latter provision has rarely been used.



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IV

LOANS BY THE CHARTERED BANKS GUARANTEED BY THE GOVERNMENT

Introduction

There are a considerable number and variety of government-guaranteed loans. These are all covered in this section but the major emphasis is put on:

- (1) Farm Improvement Loans Act;
- (2) Fisheries Improvement Loans Act;
- (3) Small Businesses Loans Act; and
- (4) Veterans' Business and professional Loans Act.

The first three Acts listed above were introduced in view of the difficulties experienced by farmers, fishermen and proprietors of small businesses in obtaining medium-term credit on reasonable terms and conditions for the purpose of financing capital improvements. In effect, these loan schemes serve to fill a gap in existing private financial facilities. Although the objectives are the same, there were differences in the circumstances which led to the introduction of the legislation in each case.

Agriculture has traditionally been a sector of the economy where conditions of production and marketing and the problems of capital financing call for a relatively large degree of government co-operation and assistance. Direct lending to farmers on the basis of long term mortgage loans was initiated by Parliament passing the Canadian Farm Loan Act in



LIST OF THE STATUTES THAT RELATE TO THE BANKING

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1 1929. During World War II it became apparent that
2 far-reaching technological changes required the
3 substantial modernization and improvement of pro-
4 ductive facilities if Canadian farmers were to keep
5 pace with prospective economic developments. This
6 involved providing farmers with means to acquire
7 medium-term capital financing on reasonable terms
8 and Parliament therefore passed the Farm Improvement
9 Loans Act in 1944.

10 The need to promote increased efficiency in
11 the Canadian fishing industry was no less urgent.
12 However, the economic state of that industry required
13 that initially governmental measures should place the
14 main emphasis on research and experimental work. The
15 introduction of the Fisheries Improvement Loans Act in
16 1955 was largely due to the fact that the government-
17 guaranteed bank loan system had proved so successful
18 in the agricultural field. Together with this, there
19 was a widespread belief that the opportunities open
20 to fishermen for obtaining credit through the existing
21 institutional channels were less than for other groups
22 in the community.

23 The Small Businesses Loans Act, which became
24 effective in January 1961, was established in the light
25 of economic trends during the post-war period which led
26 to significant changes in the competitive position of
27 small businessmen, particularly those engaged in the
28 distributive trades. Since the war, Canada has become
29 a more industrialized and largely urban economy. The
30 resultant shifts in population, particularly the move



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1 to the suburbs, as well as higher incomes, has had
2 significant effects on existing market patterns and
3 opened the door to new techniques of merchandising
4 appropriate to a mass consumption society. These develop-
5 ments have led to the widespread establishment of large
6 chain stores and complex shopping centres which have
7 placed the small independent retailer at a disadvantage
8 partly because of his difficulty in acquiring capital
9 to meet this modernized competition. Although the
10 evidence is less spectacular in manufacturing, the trend
11 in that sector has also been towards concentration and
12 the establishment of large-scale enterprises. The fact
13 that the whole economic climate is becoming continuously
14 more competitive has contributed to pressure for govern-
15 ment assistance to small business. By the late 1950's,
16 there was general agreement on the need for measures in
17 aid of the small businessman.

18 The fourth Act which is reviewed in this
19 section, the Veterans' Business and Professional Loans
20 Act, was put on the statute books in 1946 and was
21 designed to meet the special problems of the re-
22 establishment of veterans in civilian life after World
23 War II. Subsequently, the benefits under this legis-
24 lation were extended to cover veterans of the Korean War
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1 FARM IMPROVEMENT LOANS ACT

2 Essential Features

3 This legislation is designed to make available
4 to farmers intermediate-term credit for the improvement
5 and development of farms and for the improvement of
6 living conditions thereon.

7 To this end, the Act authorizes the Minister
8 of Finance to guarantee each individual chartered bank
9 against loss up to 10 per cent of all farm improvement loans
10 which it makes. The Government's total contingent liability
11 is limited by the establishment of a maximum on the total
12 amount of guaranteed farm improvement loans which may
13 be made by all banks during a specified lending period.
14 This maximum is now set at the level of \$400 million for
15 a lending period of three years.

16 The main purposes for which farm improvement
17 loans may be made are:

- 18 - the purchase of agricultural implements;
19 - the construction, repair or alteration of
20 farm buildings;
21 - the acquisition of livestock;
22 - general works for the improvement and
23 development of farms such as the repair,
24 alteration or improvement of fencing or
25 works for drainage.

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27 The principal terms under which loans may
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Toronto, Ontario

- the maximum period for which loans may be made is 10 years: subject to this and the specific provisions applicable to agricultural implements, the term for repayment and the amount and frequency of instalment payments conform to the borrower's probable ability to pay, having regard to the type of farming carried on by him and the relevant marketing and other practices and conditions and to any special circumstances;
- the maximum rate of interest is 5 per cent per annum;
- the borrower is required to put up a minimum portion of the cost of the loan project and this down-payment varies with the loan project, as outlined in some detail below;
- security, including mortgage security, is required and the type of security which is prescribed varies with the loan project, as outlined in some detail below.

The following comparison of terms and conditions applicable to loans for the purchase of agricultural implements with those applicable to fencing or drainage loans will serve to indicate how the terms and conditions vary depending on the purpose of the loan.



General Outline

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- The following comparison of terms and conditions applicable to loans for agricultural implements with those applicable to fencing or drainage loans will serve to indicate how the terms and conditions vary depending on the purpose of the loan.

ImplementsFencing or Drainage

- (1) Eligibility - owner or tenant of farm owner only
- (2) Amount - 66 $\frac{2}{3}$ per cent of cash price (new implements) 75 per cent of estimated cost of project
- 60 per cent of cash price (used implements)
- 80 per cent of cash price for a specific group of implements e.g. churns and washing machines
- (3) Security - under Section 88 of the Bank Act on implements purchased (i) under Section 88 of the Bank Act on all agricultural implements of the borrower
- (ii) if loan exceeds \$2,000 and repayment period exceeds 5 years, security by way of mortgage or hypothec on farm or by an assignment of the rights and interest of a purchaser of the farm under an agreement of sale
- (4) Repayment - (i) maximum period 2 $\frac{1}{2}$ years for motor truck or vehicle of station wagon type maximum period 10 years
- (ii) maximum period 4 years for other farm implements
- (5) Minimum Frequency of Instalments - ranges from monthly to annually depending on type of implement

Brief Historical Review

The Farm Improvement Loans scheme became operative in 1945 and the legislation was initially made effective for a period of three years. Subsequently, it was extended through the addition of new lending periods. The first extension was made in 1948 and further extensions were made in 1951, 1953, 1956, 1959 and 1962.

The maximum on the total principal amount of loans eligible for the 10 per cent guarantee was first set at \$250 million. In 1953, this was increased to \$300 million and in 1961 to \$400 million. Originally, the maximum amount which might be borrowed by an individual farmer was set at \$3,000; this amount was increased to \$4,000 in 1953; to \$5,000 in 1956 and to \$7,500 in 1959. The coverage of the Act was extended in 1959 to include beekeepers as eligible borrowers.

From the inception of the Act to the end of 1961, over 933,000 farm improvement loans were made amounting to a total of \$1.1 billion. In 1961, more than 70,000 loans were made amounting to \$108.1 million.

By far the greatest proportion of loan funds was used for the purchase of agricultural implements. Since the start of loan operations about \$943.6 million or 84 per cent of the total was lent for this purpose. Loans amounting to \$90.6 million or 8 per cent of the total were made for the construction, repair or alteration of buildings, about \$64.0 million or 6 per cent for the purchase of livestock and the remainder, about \$23.7 million or 2 per cent of the total, was made for the



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From the inception of the Act to the end of 1961, over 938,000 farm improvement loans were made amounting to a total of \$1.1 billion. In 1961, more than 70,000 loans were made amounting to \$100 million.

By far the greatest proportion of loan funds was used for the purchase of agricultural implements. Since the start of loan operations about \$67.6 million or 84 per cent of the total was lent for this purpose. Loans amounting to \$90.6 million or 8 per cent of the total were made for the construction, repair or alteration of buildings, about \$41.0 million or 6 per cent for the purchase of livestock and the remainder, about \$21.7 million or 2 per cent of the total, was made for the



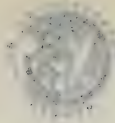
1 general improvement of farms.

2 The loan amount disbursed each year under the
3 Act rose from \$3.4 million in 1945 to a peak of
4 \$98.3 million in 1952. The amount of loans made remained
5 relatively stable in 1953 but during the succeeding
6 five years lending activity was at a lower level with
7 loans ranging between \$62.1 million in 1954 and \$90.5
8 million in 1958. In 1959, loans exceeded by a slight
9 margin the previous record set in 1952. Since that time
10 there has been a steady increase in lending and, as
11 indicated above, loans reached a record level of \$108.1
12 million in 1961. Since the inception of loan operations,
13 there was a continuous increase in the size of the
14 average loan, rising from \$784 in 1945 to \$1,531 in
15 1961.

16 During the period since the inception of the
17 Act to the end of 1961, total claims paid by the Govern-
18 ment, under the guarantee in respect of losses, amounted
19 to \$1,356,196, of which \$134,120 was subsequently
20 recovered. Therefore, net claims, over the 17 years
21 of operation, have amounted to \$1,222,076, or about one-
22 tenth of one percent of total loans made, of which about
23 \$194 million are still outstanding.

24 Further details of the lending operations
25 under the Act are contained in tables appended to
26 this section.

27 This system of guaranteed bank loans has resulted
28 in farmers obtaining more credit than would have been
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1 Moreover, the cost of borrowing to farmers under this
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3 which are usually levied when credit is supplied through
4 alternative channels. It is reasonable to assume that
5 the rate of interest, at 5 per cent on all loans, is less,
6 on the average, than that which the banks would have had
7 to charge on the basis of the credit rating of individual
8 borrowers and in the absence of the government guarantee.
9 The prescribed rate of interest has remained constant since
10 the inception of the Statute and consequently, the cost
11 of borrowing has not been affected by any of the changes
12 in general credit conditions throughout this period.

13 The introduction of government-guaranteed loans
14 gave farmers more comprehensive access to the banks and
15 thus to the largest pool of loan funds in Canada. In
16 establishing a viable debtor-creditor relationship between
17 farmers and the banks for credit beyond short-term
18 requirements, the Act was effective in breaking down
19 institutional barriers which had existed previously.

20 While the initial effects of the legislation
21 are fairly clear cut, it is more difficult to establish
22 with any degree of certainty which factors were responsible
23 for the pronounced growth in lending operations since
24 this legislation came into effect. Clearly however, there
25 was a need for more medium-term farm credit, and the
26 terms and conditions of lending established under the
27 legislation have been on the whole satisfactory both
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1 has encouraged increased lending activity. The success-
2 ful operation of the Act has been part of the pattern of
3 government policy to support the level of production
4 and income in the agricultural sector.

5 Administration

6 Considerable experience has been gained in the
7 operations of the Farm Improvement Loans Act over the
8 17 years since its inception. The procedures which have
9 been worked out for administering this legislation, have
10 set the general pattern for the administration of the
11 other schemes under review.

12 Subject to the requirements of the Act and
13 the Regulations, the responsibility for making farm
14 improvement loans rests with the chartered banks. In the
15 operation of this loan scheme, the banks are required by
16 the terms of the legislation to scrutinize the applications
17 for loans with the same care which they exercise in the
18 conduct of their ordinary business and, in the further
19 processing of loans, the banks must follow reporting
20 procedures designed to facilitate government adminis-
21 tration. A registry for the purpose of recording loans
22 made under the Act is maintained by the Guaranteed loans
23 Division of the Department of Finance which administers
24 all matters in connection with the Act and Regulations.

25 Loan Disbursements - There is a statutory
26 requirement that every bank submit a report each month
27 to the Minister showing particulars of loans made in
28 the previous month including the amount lent, the purpose
29 of the loan and the terms of repayment.

30 Loans in Default - The legislation requires

the banks to submit a report twice a year giving partic-



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ADMINISTRATION

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requirement that every bank submit a report each month to the Minister showing particulars of loans made in the previous month including the amount lent, the purpose of the loan and the terms of repayment.

Loans in Default - The legislation requires



1 culars of all loans in default. Depending on the
2 circumstances, action may be taken to effect collection
3 of loans in default or a bank may revise the loan agree-
4 ment with the borrower. If such a revision does not
5 involve an extension in the terms of repayment beyond
6 the maximum terms provided in the legislation, the bank
7 may revise the terms of the agreement with the borrower
8 without the prior approval of the Minister; a report of
9 all such revisions must, however, be sent to the Minister.
10 On the other hand, any extension beyond the maximum
11 terms provided in the legislation must receive the prior
12 approval of the Minister if the loan is to continue to
13 receive the government guarantee.

14 Claims under the Government Guarantee - When
15 it appears that further efforts to effect repayment of
16 a loan will be of no avail, the bank may file a claim for
17 loss which is processed by the Guaranteed Loans Division.
18 After a claim has been paid, all the rights of the bank,
19 for example in respect of judgments or security that has
20 been taken, are subrogated to the Crown.

21 A close working relationship has been
22 developed between the banks and the Guaranteed Loans
23 Division of the Department of Finance for the solution
24 of the practical problems that arise in the operations
25 under the legislation. The Canadian Bankers' Association
26 plays a central role in the process of consultation and
27 the exchange of information between the banks and the
28 Department on matters of mutual concern.
29
30



Department on matters of mutual concern.

the exchange of information between the banks and the Division of the Department of Finance for the solution of the practical problems that arise in the operations developed between the banks and the Guaranteed Loans

A close working relationship has been been taken, are subrogated to the Crown.

for example in respect of judgments or security that has After a claim has been paid, all the rights of the bank, loans which is processed by the Guaranteed Loans Division, a loan will be of no avail, the bank may file a claim for

Claims under the Government Guarantee - When

receive the Government Guarantee.

approval of the Minister if the loan is to continue to terms provided in the legislation must receive the prior On the other hand, any extension beyond the maximum

all such revisions must, however, be sent to the Minister, without the prior approval of the Minister.

may revise the terms of the agreement with the borrower the maximum terms provided in the legislation, the bank involve an extension in the terms of repayment beyond ment with the borrower. If such a revision does not of loans in default or a bank may revise the loan agree- circumstances, action may be taken to effect collection of loans in default. Depending on the



1 FISHERIES IMPROVEMENT LOANS ACT

2 Essential Features

3 This legislation provides term credit to
4 fishermen for the financing of a broad range of invest-
5 ment projects.

6 The Act authorizes the Minister of Finance to
7 guarantee individual lending institutions against losses
8 up to 15 per cent of fisheries improvement loans aggre-
9 gating \$500,000. A guarantee of 10 per cent applies to
10 the aggregate of loans in excess of \$500,000. The term
11 "lending institutions" is defined to include both banks
12 and credit unions and other co-operative credit societies
13 designated by the Minister. An overall limit of \$10
14 million is established on the total guaranteed fisheries
15 improvement loans which may be made by all banks, and an
16 equal limit is established for all other lending
17 institutions.

18 When the legislation was passed by Parliament
19 in 1955, there was considerable discussion about the
20 desirability of including credit unions within the
21 category of lending institutions authorized to make
22 fisheries improvement loans. The main arguments in
23 favour of their inclusion were that in some of the more
24 isolated fishing areas banking facilities were not as
25 widespread as they are on the average across the country
26 and that credit unions have traditionally been an
27 important source of credit for fishermen. The Minister
28 of Fisheries (Mr. Sinclair), in announcing that the
29 Government was prepared to authorize credit unions to
30

Essential Features

This legislation provides term credit to fishermen for the financing of a broad range of invest-

The Act authorizes the Minister of Finance to

up to 15 per cent of fisheries improvement loans agree-

gating \$500,000. A guarantee of 10 per cent applies to

the aggregate of loans in excess of \$500,000. The term

"lending institutions" is defined to include both banks

and credit unions and other co-operative credit societies

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desirability of including credit unions within the

category of lending institutions authorized to make

fisheries improvement loans. The main arguments in

favour of their inclusion were that in some of the more

isolated fishing areas banking facilities were not as

widespread as they are on the average across the country

and that credit unions have traditionally been an

important source of credit for fishermen. The Minister

of Fisheries (Mr. Stelmach), in announcing that the

Government was prepared to authorize credit unions to



1 make guaranteed fisheries improvement loans, noted
2 (Canada, House of Commons Debates, June 6, 1955, pp.
3 4476-7): "... the credit union movement is even closer
4 and more important to the fishermen of this country than
5 are the credit unions of the farmers. I say that without
6 any sense of disparagement of the latter. The fishermen
7 of the Maritimes especially are genuinely attached to
8 these institutions which did so much for them in the days
9 of the depression."

10 The purposes for which fisheries improvement
11 loans may be made are:

- 12 (1) the purchase and construction of fishing
13 vessels and fishing equipment;
- 14 (2) the major repair or major overhaul of a
15 fishing vessel or its hull, superstructure
16 or engine;
- 17 (3) the purchase and construction of a shore
18 installation;
- 19 (4) the purchase, construction, repair or
20 alteration or extension of any building
21 used or to be used in carrying on a
22 primary fishing enterprise;
- 23 (5) any prescribed development or improvement
24 of a primary fishing enterprise, e.g., the
25 sinking, construction, installation, repair,
26 alteration or improvement of any type of
27 water supply system.

28 The principal terms, pursuant to the Act and
29 the Regulations, under which loans may be obtained, are:
30



...the credit union movement is even closer
and more important to the fishermen of this country than
are the credit unions of the farmers. I say that without
any sense of disparagement of the latter. The fishermen
of the Maritime especially are generally attached to
these institutions which did so much for them in the days
of the depression."

The purposes for which fisheries improvement

loans may be made are:

- (1) the purchase and construction of fishing
vessels and fishing equipment;
- (2) the major repair or major overhaul of a
fishing vessel or its mill, superstructure
or engine;
- (3) the purchase and construction of a shore
installation;
- (4) the purchase, construction, repair or
alteration or extension of any building
used or to be used in carrying on a
primary fishing enterprise;
- (5) any prescribed development or improvement
of a primary fishing enterprise, e.g., the
alteration or improvement of any type of
water supply system.

The principal terms, pursuant to the Act and
the Regulations, under which loans may be obtained, are



Toronto, Ontario

- the maximum amount of an individual loan is \$4,000;
- the maximum term is eight years: subject to this and other specific provisions of the act and Regulations, the term and the amount and frequency of instalment payments conform to the probable ability of the borrower to pay, having regard to the type of fishing carried on by him and to relevant marketing and other practices and conditions and to any special circumstances;
- the maximum rate of interest is 5 per cent per annum;
- the lender must take security for the loan and depending on the purpose of the loan, security must be taken:
 - on motor trucks or snowmobiles, or
 - on fishing vessels, or
 - in the form of a promissory note endorsed by one or more persons, or
 - by way of an effective assignment of moneys due to the borrower.

Brief Historical Review

This legislation was enacted by Parliament in 1955 and was made effective for a period of three years. It replaced the Canadian Fisherman's Loan Act of 1935 which was a direct lending statute administered by the Canadian Farm Loan Board. In 1959 an amendment was passed which extended the period during which guaranteed loans might be made from December 12, 1958, to June



- the maximum amount of an individual loan is \$4,000;

- the maximum term is eight years; subject to this

and other specific provisions of the act and

Regulations, the term and the amount and frequency

of instalment payments conform to the probable

ability of the borrower to pay, having regard to

the type of fishing carried on by him and to

relevant marketing and other practices and

conditions and to any special circumstances;

- the maximum rate of interest is 5 per cent per

annum;

- the lender must take security for the loan and

depending on the purpose of the loan, security

must be taken:

- on motor trucks or automobiles, or

- on fishing vessels, or

- in the form of a promissory note endorsed

by one or more persons, or

- by way of an effective assignment of

moneys due to the borrower.

2. THE CANADIAN FISHERMAN'S LOAN ACT

This legislation was enacted by Parliament in

1955 and was made effective for a period of three years.

It replaced the Canadian Fisherman's Loan Act of 1952

which was a direct lending statute administered by the

Canadian Farm Loan Board. In 1959 an amendment was

passed which extended the period during which guaranteed

loans might be made from December 12, 1955, to June



1 30, 1962. Also in 1959, the Act was amended to extend
2 the definition of a fisherman to include a person who
3 intends to acquire an interest in a fishing vessel, as
4 well as a person who already has an interest in one. In
5 1962, the Act was again amended by establishing a new
6 lending period to run from July 1, 1962, to June 30, 1965.

7 In recent years a fairly stable although modest
8 amount of lending has taken place under this legislation.
9 From the inception of the Act in 1955 to March 31, 1962,
10 1,033 loans amounting to \$1,333,683 have been made. Of
11 this total \$847,627 has been repaid and currently an
12 amount of \$486,056 is outstanding. The average size of
13 loans was about \$1,300. (Under the Canadian Fisherman's
14 Loan Act of 1935, 79 loans totalling \$40,270 were made
15 in the course of 20 years.)

16 Since the start of loan operations to March
17 31, 1962, loans for the purchase, construction or repair
18 of vessels amounted to \$1,016,200 or 76 per cent of
19 total loan disbursements; loans for the purchase and
20 repair of fishing equipment amounted to \$298,591 or
21 22 per cent and loans for the purchase, construction,
22 alteration or repair of buildings and shore installations
23 amounted to \$18,882 or 1½ per cent of all loans made.
24 Since 1955 when the Act went into effect, the Government,
25 under the guarantee in respect of losses, paid three
26 claims amounting to a total of \$616. This represents
27 less than 0.05 per cent of total loans made over the
28 period, of which \$486,056 are still outstanding.

29 Further details of lending operations under
30 the Act are contained in an appendix to this section.



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Further details of lending operations under period, of which \$485,056 are still outstanding, less than 0.05 per cent of total loans made over the under the guarantee in respect of loans, paid three Since 1955 when the Act went into effect, the Government amounted to \$10,382 or 1 1/2 per cent of all loans made, alteration or repair of buildings and shore installation 22 per cent and loans for the purchase, construction, repair of fishing equipment amounted to \$298,591 or total loan disbursements; loans for the purchase and of vessels amounted to \$1,016,200 or 76 per cent of 31, 1966, loans for the purchase, construction or repair Since the start of loan operations to March in the course of 80 years.)

Loan Act of 1935, 79 loans totalling \$40,270 were made loans was about \$1,300. (Under the Canadian Fisherman's amount of \$485,056 is outstanding. The average size of this total \$847,627 has been repaid and currently an 1,033 loans amounting to \$1,383,683 have been made. Of From the inception of the Act in 1935 to March 31, 1962, amount of lending has taken place under this legislation. In recent years a fairly stable although modest lending period to run from July 1, 1952, to June 30, 1962. 1962, the Act was again amended by establishing a new well as a person who already has an interest in one. In intends to acquire an interest in a fishing vessel, as the definition of a fisherman to include a person who 30, 1962. Also in 1959, the Act was amended to extend



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2 31, 1962, loans for the purchase, construction or repair
3 of vessels amounted to \$1,016,200 or 76 per cent of
4 total loan disbursements; loans for the purchase and
5 repair of fishing equipment amounted to \$298,591 or
6 22 per cent and loans for the purchase, construction,
7 alteration or repair of buildings and shore installations
8 amounted to \$18,882 or $1\frac{1}{2}$ per cent of all loans made.
9 Since 1955 when the Act went into effect, the Government,
10 under the guarantee in respect of losses, paid three
11 claims amounting to a total of \$616. This represents
12 less than 0.05 per cent of total loans made over the
13 period, of which \$486,056 are still outstanding.

14 Further details of lending operations under
15 the Act are contained in an appendix to this section.

16 The impact of loan operations on the fishing
17 industry has not been large. The modest level of activity
18 under the Fisheries Improvement Loans Act is the result
19 of a combination of factors. Economic conditions pre-
20 vailing in large segments of the fishing industry make
21 it difficult or unattractive for individual fishermen
22 to borrow from financial institutions. As a result,
23 there is still a good deal of reliance on other credit
24 sources, such as fish processors and merchants, who lend
25 on the basis of commercial considerations as distinct
26 from the financial institutions which apply different and
27 rather more rigorous criteria. In other sectors of the
28 fishing industry where conditions are more conducive to
29 the infusion of capital because it will result in increased
30 productivity and higher incomes - the efforts of



Letter No. F. 1001/1955 dated 15.12.1955

For the purpose of the Fisheries Development Act, 1955

of vessels amounted to \$1,016,200 or 76 per cent of total loan disbursement; loans for the purchase and repair of fishing equipment amounted to \$298,561 or 24 per cent of total loan disbursement; alteration or repair of buildings and shore installations amounted to \$18,882 or 1 1/2 per cent of all loans made. Since 1955 when the Act went into effect, the Government under the guarantee in respect of losses, paid three claims amounting to a total of \$516. This represents less than 0.05 per cent of total loans made over the period, of which \$486,056 are still outstanding.

Further details of lending operations under the Act are contained in an appendix to this section. The impact of loan operations on the fishing industry has not been large. The modest level of activity under the Fisheries Improvement Loans Act is the result of a combination of factors. Economic conditions prevailing in large segments of the fishing industry make it difficult or unattractive for individual fishermen to borrow from financial institutions. As a result, there is still a good deal of reliance on other credit sources, such as fish processors and merchants, who lend on the basis of commercial considerations as distinct from the financial institutions which apply different and rather more rigorous criteria. In other sectors of the fishing industry where conditions are more conducive to the infusion of capital because it will result in increased productivity and higher incomes - the efforts of



1 provincial and federal governments, by way of direct
2 loans and grants, are quite substantial and in some
3 areas at least provide all the capital that can be
4 used profitably. Thus, the opportunity for making
5 use of the guaranteed-loan scheme has so far been
6 rather limited.

7 8 Administration

9 With only minor exceptions the administration
10 of the Fisheries Improvement Loans Act follows the
11 pattern of administration of the Farm Improvement
12 Loans Act.

13 SMALL BUSINESSES LOANS ACT

14 Essential Features

15 This legislation provides proprietors of small
16 businesses with term credit for financing capital improve-
17 ments to existing enterprises. The Act was passed by
18 Parliament in December, 1960, and came into operation in
19 January, 1961.

20 The Act authorizes the Minister of Finance to
21 guarantee each individual bank against losses of up to
22 10 per cent of the business improvement loans made by
23 it. A limit of \$300 million is established on the
24 aggregate principal amount of guaranteed loans made by
25
26 all banks in the period from the inception of the Act to
27 December 31, 1963.

28 Enterprises which are eligible to receive
29 business improvement loans are those carried on for gain
30



...and grants, are quite substantial and in some areas at least provide all the capital that can be used profitably. When the opportunity for the use of the guaranteed-loan scheme has so far been rather limited.

LEGISLATION

of the Fisheries Improvement Loans Act follows the pattern of administration of the Farm Improvement Loans Act.

SMALL BUSINESS LOANS ACT

Essential Features

This legislation provides provisions of small businesses with term credit for financing capital improvements to existing enterprises. The Act was passed by Parliament in December, 1960, and came into operation in January, 1961.

The Act authorizes the Minister of Finance to guarantee each individual bank against losses of up to 10 per cent of the business improvement loans made by it. A limit of \$300 million is established on the aggregate principal amount of guaranteed loans made by all banks in the period from the inception of the Act to Enterprises which are eligible to receive business improvement loans are those carried on for gain



1 or profit which are engaged in manufacturing, wholesale
2 trade, retail trade and service businesses. A small
3 business within these categories is defined as one whose
4 annual gross revenue does not exceed \$250,000.

5 The purposes for which loans may be made are:

- 6 - the purchase, installation, renovation, improvement
7 or modernization of equipment of a kind usually
8 affixed to real or immovable property;
- 9 - the purchase, renovation, improvement or moderni-
10 zation of equipment of a kind not usually affixed
11 to real or immovable property;
- 12 - the renovation, improvement or modernization of
13 premises or the alteration or extension of premises;
- 14 - the construction or purchase of alternative premises
15 where the premises in which the business enterprise
16 was or is being carried on are not or will cease
17 to be available for that purpose, or where, in the
18 opinion of a responsible officer of the bank, failure
19 to relocate the business enterprise in alternative
20 premises will impede the efficient carrying on of
21 the enterprise or the reasonable expansion thereof.

22 The principal terms, pursuant to the Act and the
23 Regulations, under which business improvement loans may
24 be made are:
25

- 26 - the maximum amount which an individual may borrow
27 is \$25,000;
- 28 - the maximum period for which a loan may be made
29
30



trade, retail trade and service businesses. A small

annual gross revenue does not exceed \$250,000.

The purposes for which loans may be made are:

or modernization of equipment of a kind usually

affixed to real or immovable property;

- the purchase, renovation, improvement or modernization

of equipment of a kind not usually affixed

to real or immovable property;

- the renovation, improvement or modernization of

premises on the alteration or extension of premises;

- the construction or purchase of alternative premises

where the premises in which the business enterprise

was or is being carried on are not or will cease

to be available for that purpose, or where, in the

opinion of a responsible officer of the bank, following

to relocate the business enterprise in alternative

premises will impede the efficient carrying on of

the enterprise or the reasonable expansion thereof.

The principal terms, pursuant to the Act and the

Regulations, under which business improvement loans may

be made are:

- the maximum amount which an individual may borrow

is \$25,000;

- the maximum period for which a loan may be made



1 is ten years: subject to this requirement, the
2 term for repayment and the amount and frequency of
3 the instalment payments conform to the borrower's
4 probable ability to pay, having regard to the kind
5 of business enterprise carried on by him and the
6 relevant business practices and conditions and to
7 any special circumstances;

8 - the maximum rate of interest is $5\frac{1}{2}$ per cent per
9 annum;

10 - security must be taken when the loan is made:

11 (a) on equipment, or

12 (b) on any real or immovable property,

13 in respect of which the proceeds of the loan are
14 to be expended, except that where, in the opinion
15 of a responsible officer of the bank, other
16 security is required or advisable, in place of or
17 in addition to the security described in paragraph
18 (a) or (b), the bank shall, at the time of making
19 the loan, take as security for the repayment
20 thereof such other security as the responsible
21 officer of the bank considers appropriate in the
22 circumstances, having regard to the net worth of
23 the borrower and the kind of business enterprise
24 carried on by the borrower.

25 - the borrower must put up a portion of the cost of
26 the project as follows:

27 (a) 20 per cent of the cost of fixed or movable
28
29
30



is ten years: subject to this requirement, the

probable ability to pay, having regard to the kind
of business enterprise carried on by him and the
relevant business practices and conditions and to
any special circumstances;

- the maximum rate of interest is 5 per cent per
annum;

- security must be taken when the loan is made;

(a) on equipment, or

(b) on any real or immovable property,

in respect of which the proceeds of the loan are
to be expended, except that where, in the opinion
of a responsible officer of the bank, other
security is required or advisable, in place of or

in addition to the security described in paragraph
(a) or (b), the bank shall, at the time of making

the loan, take as security for the repayment
thereof such other security as the responsible
officer of the bank considers appropriate in the
circumstances, having regard to the net worth of
the borrower and the kind of business enterprise
carried on by the borrower.

- the borrower must put up a portion of the cost of
the project as follows:

(a) 50 per cent of the cost of fixed or movable



equipment;

(b) 10 per cent of the cost of an improvement of premises;

(c) 10 per cent of the cost of the construction or purchase of alternative premises.

Brief Historical Review

This scheme came into effect on January 19, 1961. In reviewing the first year's experience with the legislation the Minister of Finance (Mr. Fleming) commented as follows (Canada, House of Commons Debates, February 15, 1962 pp. 915-6): "There is, in fact, tangible evidence of the sizeable assistance obtained by small business enterprises in all the provinces....

"From the inception of the Act in January, 1961, to the end of last December, 2,977 loans amounting to over \$25.5 million were made to small business enterprises. Out of total loan disbursements, service businesses accounted for about one-half, retail establishments for about one-quarter, manufacturers for about one-fifth and the remainder of the loans went to wholesalers. The average size of individual loans was around \$8,600....

"In introducing the small businesses loans legislation at the last session of parliament, I referred to the important role played by small business within the framework of the Canadian economy and I expressed the hope that the act would be instrumental in furthering the efficiency and competitive strength of small business enterprises. As indicated, there is every reason to believe that the new credit facilities can make a significant contribution towards achieving this



(b) 10 per cent of the cost of an improvement of

(c) 10 per cent of the cost of the construction

or purchase of alternative premises.

THE SMALL BUSINESS LOAN ACT

This scheme came into effect on January 19,

1981. In reviewing the first year's experience with

the legislation the Minister of Finance (Mr. Fleming)

commented as follows (Canada, House of Commons Debates,

February 15, 1982 pp. 915-6): "There is, in fact,

tangible evidence of the sizeable assistance obtained by

small business enterprises in all the provinces....

"From the inception of the Act in January, 1981,

to the end of last December, \$2.97 billion amounting to

over \$2.5 billion were made to small business enterprises.

Out of total loan disbursements, service businesses

accounted for about one-half, retail establishments for

about one-quarter, manufacturers for about one-fifth and

the remainder of the loans went to wholesalers. The

average size of individual loans was around \$2,600....

"In introducing the small businesses loan

legislation at the last session of parliament, I referred

to the important role played by small business within the

framework of the Canadian economy and I expressed the

hope that the act would be instrumental in furthering

the efficiency and competitive strength of small

business enterprises. As indicated, there is every

evidence that the act has made a significant contribution towards achieving this



objective."

Further details of lending operations under the Act for 1961 are contained in an appendix to this report.

Administration

The general pattern of administration under the Act and the Regulations is similar to that of the other loan schemes under review.

THE VETERANS' BUSINESS AND PROFESSIONAL LOANS ACT

Essential Features

This legislation was designed to assist veterans to establish themselves in civilian life by providing them with funds to start a new business (including the business of a profession) or to enlarge the scope of a business in which they were already engaged.

The Act authorizes the Minister of Finance to guarantee an individual chartered bank against losses up to

- 25 per cent of the first \$1 million of loans made, and
- 15 per cent of the aggregate of loans in excess of \$1 million.

This guarantee applies to a maximum of \$25 million of loans made by all banks.

The main purposes for which loans may be made are:

- purchase of a business;
- purchase of an interest in an existing partner-



report.

Investigation

The general pattern of administration under the Act and the Regulations is similar to that of the other loan schemes under review.

The Act and the Regulations

Statutory provisions

This legislation was designed to assist veterans to establish themselves in civilian life by providing them with funds to start a new business (including the business of a profession) or to enlarge the scope of a business in which they were already engaged.

The Act authorizes the Minister of Finance to guarantee an individual chartered bank against losses up

- 25 per cent of the first \$1 million of loans made;
- 15 per cent of the aggregate of loans in excess of \$1 million.

This guarantee applies to a maximum of \$25

million of loans made by all banks.

The main purposes for which loans may

be made are:

- purchase of a business;
- purchase of an interest in an existing partnership;



1 ship or the advance of capital for a new
2 partnership;

3 - purchase or repair of machinery, tools,
4 instruments or other equipment for use in a
5 business;

6
7 - construction, repair or alteration or extension
8 of buildings and the purchase of land for any of
9 these purposes; and

10 - other business activities prescribed in the
11 Regulations, such as the purchase of a motorized
12 unit for use in a business.

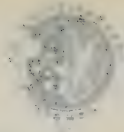
13
14 The principal loan terms, pursuant to the Act
15 and the Regulations, are:

16 - a veteran may borrow up to two-thirds of the total
17 expenditure of an approved project up to a maximum
18 of \$3,000;

19
20 - the maximum rate of interest is 5 per cent;

21 - the maximum period of repayment is 10 years:
22 subject to this the term and amount and frequency
23 of instalment payments, conform with the borrower's
24 probable ability to pay, having regard to the
25 type of business carried on or to be carried on
26 by him and to any special circumstances;

27
28 - security is required on loans over \$1,000 and
29 varies with the purpose of the loan.
30



... or the advance of capital for a new

... ..

- purchase or repair of machinery, tools,
instruments or other equipment for use in a
business;

- construction, repair or alteration or extension
of buildings and the purchase of land for any of
these purposes; and

- other business activities prescribed in the
Regulations, such as the purchase of a motorized
unit for use in a business.

The principal loan terms, pursuant to the Act

and the Regulations, are:

- a veteran may borrow up to two-thirds of the total
expenditure of an approved project up to a maximum
of \$3,000;

- the maximum rate of interest is 5 per cent;

- the maximum period of repayment is 10 years;

subject to this the term and amount and frequency
of instalment payments, conform with the borrower's
probable ability to pay, having regard to the
type of business carried on or to be carried on
by him and to any special circumstances;

- security is required on loans over \$1,000 and

varies with the purpose of the loan.

Brief Historical Review

The legislation was enacted in 1946 and came into force on January 15, 1947, effective for a five-year period beginning on that date. In 1951, the Act was amended to provide that guaranteed loans might be made up to December 31, 1954 or to a date within ten years of the veteran's discharge whichever date should be later. In this connection, it might be noted that Order in Council P.C. 2372 of June 17, 1947, provided that veterans of World War II not previously discharged were deemed to have ended active service on September 30, 1947. Therefore, the period of eligibility of these veterans ended on September 30, 1957.

Under the provisions of the Veterans' Benefits Act of 1951, Korean veterans became eligible for the benefits under the Veterans' Business and Professional Loans Act. A group of these veterans remain who are entitled to the benefits of the Act, and who, depending on the date they left the theatre of operations, (as defined by Order in Council P.C. 1495 of 1953) may remain eligible until October 31, 1963.

From the inception of the Act to March 31, 1962, over 6,500 loans were made amounting to approximately \$12.6 million. Roughly five-sixths of total loans were made in the period to the end of 1951 and currently an amount of \$115,562 is outstanding. The average size of loans was about \$1,900.

Since the start of operations, loans for the purchase of a business or partnership or for the purpose of expanding the capital of a partnership amounted to



Loans to Veterans

The legislation was enacted in 1946 and came into force on January 15, 1947, effective for a five-year period beginning on that date. In 1951, the Act was amended to provide that guaranteed loans might be made up to December 31, 1954 or to a date within ten years of the veteran's discharge whichever date should be later. In this connection, it might be noted that Order in Council P.C. 2375 of June 17, 1947, provided that veterans of World War II not previously discharged were deemed to have ended active service on September 30, 1947. Therefore, the period of eligibility of these veterans ended on September 30, 1957.

Under the provisions of the Veterans' Benefits Act of 1951, Korean veterans became eligible for the benefits under the Veterans' Business and Professional Loans Act. A group of these veterans remain who are entitled to the benefits of the Act, and who, depending on the date they left the theatre of operations, (as defined by Order in Council P.C. 1495 of 1953) may remain

From the inception of the Act to March 31, 1962, over 6,500 loans were made amounting to approximately \$12.6 million. Roughly five-sixths of total loans were made in the period to the end of 1957 and currently an amount of \$15,502 is outstanding. The average size of loans was about \$1,900. Since the start of operations, loans for the purchase of a business or partnership or for the purpose of expanding the capital of a partnership amounted to



1 \$7.1 million or 56 per cent of total loan disbursements;
2 loans for the purchase and repair of machinery or other
3 equipment amounted to \$2.6 million or 21 per cent of
4 the total; loans for the construction, repair or alter-
5 ation of buildings amounted to \$1.5 million or 12 per
6 cent and loans for the purchase of motorized units amounted
7 to \$1.4 million or 11 per cent of all loans made.

8 During the period since inception of the Act,
9 total claims paid by the Government, under the guarantee
10 in respect of losses, amounted to \$272,109 of which
11 \$33,231 was subsequently recovered. Therefore, net
12 claims over the 15 years of operation amounted to
13 \$238,878 and accounted for 1.9 per cent of total loans
14 made.

15 Further details of the lending operations under
16 the Act are contained in an appendix to this report.

17 Administration

18 The general pattern of administration of this
19 scheme is similar to that of the other schemes under
20 review. One special provision which might be noted
21 is that the Minister of Veterans Affairs or his
22 authorized representative is required to establish that
23 the applicant for a loan is a veteran.

24 OTHER GOVERNMENT-GUARANTEED LOANS LEGISLATION 25 ADMINISTERED BY THE DEPARTMENT OF FINANCE

26 27 (1) Prairie Grain Producers Interim 28 Financing Act 1955

29 This legislation was designed to help Prairie
30 grain producers overcome temporary financial difficulties



\$7.1 million or 56 per cent of total loan disbursements; loans for the purchase and repair of machinery or other equipment amounted to \$2.6 million or 21 per cent of the total; loans for the construction, repair or alteration of buildings amounted to \$1.5 million or 12 per cent and loans for the purchase of motorized units amounted to \$1.4 million or 11 per cent of all loans made.

During the period since inception of the Act, total claims paid by the Government, under the guarantee in respect of losses, amounted to \$272,109 of which \$33,231 was subsequently recovered. Therefore, net claims over the 15 years of operation amounted to \$238,878 and accounted for 1.9 per cent of total loans made.

Further details of the lending operations under the Act are contained in an appendix to this report.

Administration

The general pattern of administration of this scheme is similar to that of the other schemes under review. One special provision which might be noted is that the Minister of Veterans Affairs or his authorized representative is required to establish that the applicant for a loan is a veteran.

OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D. C.

OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D. C.

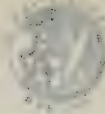
This legislation was designed to help veterans obtain permanent business loans, thereby assisting them in their economic recovery.



1 arising from inability to deliver their grain because
2 of elevator congestion. To this end, the Act authorized
3 the Minister of Finance to guarantee each bank against
4 losses up to 15 per cent of the first \$100,000 of loans
5 made and up to 10 per cent of the aggregate of loans made
6 in excess of \$100,000. This guarantee was limited to a
7 maximum of \$50 million of loans made by all banks. Under
8 this legislation, a maximum of \$1,500 could be lent to
9 each individual borrower on the security of grain, at
10 5 per cent per annum simple interest, to be repaid by
11 assignment to the bank of one half of the proceeds from
12 the sale of grain.

13 The government guarantee applied initially to
14 loans made during the period from November 1, 1955, to
15 June 1, 1956. Subsequently, the guarantee was extended
16 to cover loans made during the period October 1, 1956 to
17 June 1, 1957. In 1957, the Act was amended, increasing
18 the maximum amount of individual loans to \$3,000 and
19 establishing a further lending period from September 1,
20 1957 to June 1, 1958.

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the Minister of Finance to guarantee each bank against losses up to 15 per cent of the first \$100,000 of loans made and up to 10 per cent of the aggregate of loans made in excess of \$100,000. This guarantee was limited to a maximum of \$50 million of loans made by all banks. Under this legislation, a maximum of \$1,500 could be lent to each individual borrower on the security of grain, at 5 per cent per annum simple interest, to be repaid by assignment to the bank of one half of the proceeds from the sale of grain.

Loans made during the period from November 1, 1955, to June 1, 1956. Subsequently, the guarantee was extended to cover loans made during the period October 1, 1956 to June 1, 1957. In 1957, the Act was amended, increasing the maximum amount of individual loans to \$3,000 and establishing a further lending period from September 1, 1957 to June 1, 1958.



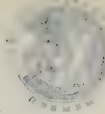
The following loans were made pursuant to this legislation:

<u>Period</u>	<u>Number of Loans</u>	<u>Amount</u>
November 15, 1955 - June 1, 1956	10,326	\$ 7,893,830
October 1, 1956 - June 1, 1957	6,117	3,957,979
September 1, 1957 - June 1, 1958	<u>6,797</u>	<u>7,573,779</u>
Total	<u>23,242</u>	<u>\$19,425,588</u>

Loans outstanding as of March 31, 1962 amounted to \$14,214. To date 42 claims to an amount of \$23,815 were paid, or one-eighth of one per cent of the total loans made.

(2) Prairie Grain Loans Act, 1960

This legislation was designed to help Prairie grain producers overcome temporary financial difficulties arising from inability to thresh their grain because of adverse weather conditions during harvest time. To this end, the Act authorized the Minister of Finance to guarantee each bank against losses up to 25 per cent of the first \$150,000 of loans made and up to 20 per cent of the aggregate of loans made in excess of \$150,000. This guarantee applied to a maximum of \$50 million of loans made by all banks. Crops with respect to which guaranteed loans were authorized included wheat, oats, barley, rye, flaxseed and rapeseed. Under this legislation, up to \$1,500 could be lent to each individual borrower, at $5\frac{1}{2}$ per cent simple interest, to be repaid by assignment to the bank of one half of the



The Prairie Grain Loans Act, 1960

this legislation:

Period	Number of Loans	Amount
November 15, 1955 - June 1, 1956	10,000	\$1,000,000
October 1, 1956 - June 1, 1957	10,000	\$1,000,000
September 1, 1957 - June 1, 1958	10,000	\$1,000,000
September 1, 1958 - June 1, 1959	10,000	\$1,000,000
September 1, 1959 - June 1, 1960	10,000	\$1,000,000

Loans outstanding as of March 31, 1960 amounted to \$14,214. To date 42 claims to an amount of \$23,915 were paid, or one-eighth of one per cent of the total loans made.

(2) Prairie Grain Loans Act, 1960

This legislation was designed to help Prairie Grain producers overcome temporary financial difficulties arising from inability to thresh their grain because of adverse weather conditions during harvest time. To this end, the Act authorized the Minister of Finance to guarantee each bank against losses up to 25 per cent of the first \$150,000 of loans made in excess of \$150,000. This guarantee applied to a maximum of \$50 million of loans made by all banks. Crops with respect to which guaranteed loans were authorized included wheat, oats, barley, and flax. The Act provided that the guarantee could be lent to each individual borrower, at 5 per cent simple interest, to be repaid by assignment to the bank of one half of the

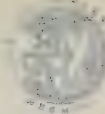


proceeds from the sale of grain. Security could be taken either on threshed or unthreshed grain.

The government guarantee was in force between August 1, 1959 and June 1, 1960. During this period, 64 loans amounting to \$54,210 were made. To date, one claim for \$153 was paid.

OTHER GUARANTEE PROVISIONS NOT ADMINISTERED BY THE
DEPARTMENT OF FINANCE

1. Deposits maintained by banks in the Bank of Canada.
2. Loans made by approved lending institutions under the National Housing Acts prior to the 1954 Act.
3. Loans made by lenders under Part IV of the National Housing Act, 1954, for home extensions and improvements.
4. Insured loans made by approved lenders under the National Housing Act, 1954.
5. Guarantees to owners of returns from moderate-rental housing projects.
6. Guarantees under the Export-Credits Insurance Act, Part I.
7. Loans made by the chartered banks to the Canadian Wheat Board.
8. Loans under The Prairie Grain Advance Payments Act, 1957.
9. Loans under The Prairie Grain Provisional Payments Act, 1960 (terminated on May 1, 1960).



proceeds from the sale of grain. Security could be taken either on threshed or unthreshed grain.

The government guarantee was in force between August 1, 1959 and June 1, 1960. During this period, 64 loans amounting to \$34,210 were made. To date, one claim for \$155 was paid.

OTHER GUARANTEE PROVISIONS NOT ADMINISTERED BY THE

DEPARTMENT OF FINANCE

1. Deposits maintained by banks in the Bank of Canada.
2. Loans made by approved lending institutions under the National Housing Act prior to the 1954 Act.
3. Loans made by lenders under Part IV of the National Housing Act, 1954, for home extensions and improvements.
4. Insured loans made by approved lenders under the National Housing Act, 1954.
5. Guarantees to owners of rentals from moderate-rental housing projects.
6. Guarantees under the Export-Credits Insurance Act, Part I.
7. Loans made by the chartered banks to the Canadian
8. Loans under The Prairie Grain Advance Payments Act, 1957.
9. Loans under The Prairie Grain Provisional Payments Act, 1960 (terminated on May 1, 1960).

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FARM IMPROVEMENT LOANS

TABLE I

March 1, 1945 - Dec. 31, 1961

	<u>Number</u>	<u>Amount (in dollars)</u>
Total Loans	933,474	1,121,929,527
Total Repayments		<u>928,088,914</u>
Balance outstanding as of Dec. 31, 1961		193,840,613
Total Claims paid	1,984	1,356,196
Recoveries		<u>134,120</u>
Net Claims		<u>1,222,076</u>
Average size of Loans		1,202

TABLE II

REPAYMENT OF LOANS BY LENDING PERIODS

	<u>Amount Borrowed</u>	<u>Amount Repaid</u>	<u>Per Cent Repaid of Amount Borrowed</u>
<u>PERIOD 1</u>			
March 1, 1945 to February 28, 1948	\$ 33,605,576	\$ 33,605,127	99.99
<u>PERIOD 2</u>			
March 1, 1948 to February 28, 1951	142,372,774	142,312,993	99.95
<u>PERIOD 3</u>			
March 1, 1951 to March 31, 1953	190,449,006	190,142,111	99.83
<u>PERIOD 4</u>			
April 1, 1953 to March 31, 1956	222,723,434	221,387,295	99.40
<u>PERIOD 5</u>			
April 1, 1956 to March 31, 1959	239,064,072	225,161,686	94.18
<u>PERIOD 6</u>			
April 1, 1959 to June 30, 1962 (to December 31, 1961)	293,714,665	115,479,701	39.3
<u>Totals</u>	<u>\$1,121,929,527</u>	<u>\$928,088,913</u>	<u>82.7</u>

March 1, 1945 - Dec. 31, 1961

Amount	Number	Amount
928,088.91	1,984	1,356,196
193,840.613		1,162,355
		1,305

REPAYMENT OF LOANS BY THE INC PERIOD

Per Cent	Repaid of	Amount Borrowed	Amount Repaid	Amount Repaid
99.99		\$ 33,605,276	\$ 33,605,276	
99.99		142,376,774	142,376,774	
99.99		190,449,000	190,449,000	
99.40		225,753,434	225,753,434	
94.18		225,004,074	225,004,074	

FARM IMPROVEMENT LOANS

TABLE III

Loans made 1945 - 1961

<u>Calendar Years</u>	<u>No.</u>	<u>Amount</u> \$	<u>Average Loan</u> \$
1945 [*]	4,311	3,381,742	784
1946	13,030	9,880,566	758
1947	22,046	18,160,821	824
1948	30,431	29,331,131	964
1949	44,775	45,879,080	1,025
1950	58,969	63,421,363	1,075
1951	75,063	85,326,227	1,137
1952	83,315	98,259,150	1,180
1953	83,962	97,892,760	1,166
1954	58,572	62,073,806	1,060
1955	60,755	69,105,521	1,137
1956	60,180	70,819,312	1,177
1957	57,988	69,427,874	1,199
1958	70,278	90,539,744	1,288
1959	71,143	98,427,519	1,384
1960	68,041	101,855,746	1,497
1961	70,615	108,147,165	1,531
<hr/>			
Total.....	933,474	\$1,121,929,527	\$1,202

*10 months only.

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*10 months only.

FARM IMPROVEMENT LOANS

TABLE IV

Jan. 1, 1958 - Dec. 31, 1958

Jan. 1, 1959 - Dec. 31, 1959

	Jan. 1, 1958 - Dec. 31, 1958				Jan. 1, 1959 - Dec. 31, 1959			
	Number in thousands	Per Cent	Amounts in millions of dollars	Per Cent	Number in thousands	Per Cent	Amounts in millions of dollars	Per Cent
(a) by Purpose of Loans								
Agricultural Implements	55.8	79.5	71.8	79.3	55.8	78.5	77.0	79.2
Farm Buildings	5.9	8.4	10.0	11.1	6.2	8.7	11.2	11.3
Livestock	6.5	9.3	7.0	7.7	6.7	9.4	7.9	8.2
All Other	2.0	2.8	1.7	1.9	2.4	3.4	2.3	2.3
Total	70.2	100.0	90.5	100.0	71.1	100.0	98.4	100.0
(b) by Provinces								
Alberta	17.3	24.6	21.8	24.1	17.9	25.2	24.6	25.0
Saskatchewan	16.0	22.8	19.8	21.9	17.8	25.1	23.5	23.9
Ontario	12.8	18.2	17.7	19.6	12.9	18.1	19.1	19.5
Quebec	12.2	17.4	16.4	18.1	10.3	14.5	14.7	14.9
Manitoba	7.2	10.3	8.9	9.9	7.8	10.9	10.4	10.6
British Columbia	1.9	2.7	2.7	3.0	2.0	2.8	3.1	3.2
Prince Edward Island	1.1	1.6	1.2	1.3	.9	1.2	1.1	1.0
Nova Scotia	.9	1.3	1.0	1.1	.8	1.1	1.0	1.0
New Brunswick	.8	1.1	.9	.9	.7	1.1	.8	.8
Newfoundland	- *	-	.1	.1	- **	-	.1	.1
Total	70.2	100.0	90.5	100.0	71.1	100.0	98.4	100.0

* Actual no. is 46.
** Actual no. is 37.

FARM IMPROVEMENT LOANS

TABLE IV (Cont'd)

	<u>Jan. 1, 1960 - Dec. 31, 1960</u>				<u>Jan. 1, 1961 - Dec. 31, 1961</u>			
	Number in thousands	Per Cent	Amounts in millions of dollars	Per Cent	Number in thousands	Per Cent	Amounts in millions of dollars	Per Cent
(a) by Purpose of Loans								
Agricultural Implements	52.8	77.6	79.9	78.3	50.4	71.4	76.5	70.8
Farm Buildings	5.2	7.7	10.1	9.9	7.1	10.0	15.4	14.2
Livestock	7.7	11.3	9.6	9.5	9.5	13.5	12.7	11.8
All Other	2.3	3.4	2.3	2.3	3.6	5.1	3.5	3.2
Total	68.0	100.0	101.9	100.0	70.6	100.0	108.1	100.0
(b) by Provinces								
Alberta	16.7	24.5	24.6	24.2	19.0	26.9	28.5	26.3
Saskatchewan	19.2	28.3	28.2	27.7	15.3	21.7	21.3	19.8
Ontario	11.9	17.5	18.7	18.4	13.9	19.7	22.9	21.2
Quebec	8.5	12.5	13.0	12.7	11.1	15.8	18.1	16.7
Manitoba	7.5	11.0	11.0	10.8	6.6	9.3	9.5	8.8
British Columbia	1.8	2.6	2.9	2.7	2.2	3.1	4.1	3.8
Prince Edward Island	1.2	1.8	1.4	1.4	1.0	1.4	1.4	1.3
Nova Scotia	.6	.9	1.0	1.0	.7	1.0	1.1	1.0
New Brunswick	.6	.9	1.0	1.0	.7	1.0	1.1	1.0
Newfoundland	—*	—	.1*	.1	.1	.1	.1	.1
Total	68.0	100.0	101.9	100.0	70.6	100.0	108.1	100.0

* Exact figures are 49 loans for a total of \$73,567.

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FISHERIES IMPROVEMENT LOANS

TABLE I

Total Loans since Inception

(July 11, 1955 to March 31, 1962)

	<u>Number</u>	<u>Amount</u> <u>(in dollars)</u>
Total Loans	1,033	1,333,683
Total Repayments		<u>847,627</u>
Balance outstanding		486,056
 Total Claims paid	 3	 616
Recoveries	-	Nil
Average size of Loans		1,291

TABLE II

<u>Fiscal Year ending</u> <u>March 31</u>	<u>Number</u>	<u>Amount</u> <u>(in dollars)</u>
1956	102	99,010
1957	203	236,186
1958	136	149,960
1959	144	177,040
1960	127	170,382
1961	142	217,296
1962	<u>179</u>	<u>283,809</u>
Since Inception	<u>1,033</u>	<u>1,333,683</u>

FISHERIES IMPROVEMENT LOANS

TABLE III

Fiscal Year April 1, 1958 - March 31, 1959

Fiscal Year April 1, 1959 - March 31, 1960

Number and Amounts

(a) by Purpose of Loans

Fishing Equipment
Purch. or Rep. of vessels
or boats
Building and Construction
(Shore Installation)

Total

Number	Amounts in		Per Cent	Number	Amounts in		Per Cent
	thousands of dollars	Cent			thousands of dollars	Cent	
33	30.6	17.3		32	43.6	25.2	25.5
109	145.6	82.3		93	122.0	73.2	71.7
2	.8	.4		2	4.8	1.6	2.8
144	177.0	100.0		127	170.4	100.0	100.0

(b) by Provinces

British Columbia
Alberta
Saskatchewan
Manitoba
Ontario
Quebec
New Brunswick
Nova Scotia
Prince Edward Island
Newfoundland

Total

Number	Amounts in		Per Cent	Number	Amounts in		Per Cent
	thousands of dollars	Cent			thousands of dollars	Cent	
37	72.0	40.7		22	51.1	17.3	30.1
1	.8	.4		2	4.3	1.6	2.6
5	4.8	2.7		3	5.7	2.4	3.0
23	17.5	9.8		10	9.7	7.9	5.7
21	33.0	18.7		14	10.0	11.0	5.9
57	48.9	27.7		31	44.9	24.4	26.4
				43	42.3	33.8	24.9
				2	2.4	1.6	1.4
144	177.0	100.0		127	170.4	100.0	100.0

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FISHERIES IMPROVEMENT LOANS

TABLE III (Cont'd)

Fiscal Year April 1, 1960 - March 31, 1961

Number and Amounts	Number	Amounts in	
		thousands of dollars	Per Cent
(a) <u>by Purpose of Loans</u>			
Fishing Equipment	41	45.0	20.8
Purch. or Rep. of vessels or boats	100	168.3	77.4
Building and Construction (Shore Installation)	1	4.0	1.8
Total	142	217.3	100.0
(b) <u>by Provinces</u>			
British Columbia	29	95.8	44.1
Alberta			
Saskatchewan			
Manitoba			
Ontario			
Quebec	9	8.7	4.0
New Brunswick	10	9.9	4.5
Nova Scotia	18	21.7	10.0
Prince Edward Island	71	73.1	33.7
Newfoundland	5	8.1	3.7
Total	142	217.3	100.0

Fiscal Year April 1, 1961 - March 31, 1962

Number and Amounts	Number	Amounts in	
		thousands of dollars	Per Cent
(a) <u>by Purpose of Loans</u>			
Fishing Equipment	51	68.2	24.0
Purch. or Rep. of vessels or boats	127	211.6	74.6
Building and Construction (Shore Installation)	1	4.0	1.4
Total	179	283.8	100.0
(b) <u>by Provinces</u>			
British Columbia	40	116.4	41.0
Alberta			
Saskatchewan	1	1.4	.4
Manitoba			
Ontario			
Quebec	2	3.8	1.3
New Brunswick	5	6.2	2.2
Nova Scotia	6	7.5	2.8
Prince Edward Island	37	45.6	16.2
Newfoundland	86	98.1	34.6
Total	2	4.8	1.7
	179	283.8	100.0

Newfoundland

British Columbia

New Brunswick

Quebec

Manitoba

Ontario

Alberta

Saskatchewan

Manitoba

British Columbia

Manitoba

Ontario

Alberta

Saskatchewan

(whole population)

Enrollment and concentration

of persons

born in or born of persons

Manitoba Enrollment

(a) by Province of Birth

Number and Amount

Number	Cent Per	of dollars amounts in	Cent Per	of dollars amounts in	Cent Per
145	100.0	57.3	100.0	1.44	100.0
2	1.4	8.1	1.4	1.4	1.4
17	12.0	13.7	12.0	1.4	1.4
18	13.0	17.1	13.0	1.4	1.4
10	7.0	8.0	7.0	1.4	1.4
2	1.4	8.1	1.4	1.4	1.4
50	35.0	32.8	35.0	1.4	1.4
145	100.0	57.3	100.0	1.4	1.4
1	1.4	4.0	1.4	1.4	1.4
100	70.0	100.3	70.0	1.4	1.4
41	28.8	42.3	28.8	1.4	1.4
Number and Amount					

Class Year April 1, 1900 - March 31, 1901

1900-1901

1901-1902

SMALL BUSINESS LOANS

(Jan. 19, 1961 to Dec. 31, 1961)

TABLE I

	<u>Number</u>	<u>Amount</u>
Total loans	2,977	\$25,582,269
Total repayments		<u>\$ 1,935,184</u>
Balance outstanding (as of Dec. 31, 1961)		\$23,647,085
Average size of Loans during Period		8,593

TABLE II

Total Number and Amount of Loans during Period:-

(a) <u>Category of business</u>	<u>Number</u>	<u>Per Cent</u>	<u>Amount</u> \$ million	<u>Per Cent</u>
Manufacturers	585	19.7	5.2	20.4
Wholesalers	114	3.8	.8	3.1
Retailers	965	32.4	6.7	26.3
Service Business	1,313	44.1	12.8	50.2
Total	<u>2,977</u>	<u>100.0</u>	<u>25.5</u>	<u>100.0</u>
(b) <u>Purpose of loan</u>				
Equipment				
Movable	643	21.6	3.1	12.2
Fixed	639	21.5	4.9	19.2
Sub-total	1,282	43.1	8.0	31.4
Construction	1,695	56.9	17.5	68.6
Total	<u>2,977</u>	<u>100.0</u>	<u>25.5</u>	<u>100.0</u>
(c) <u>Province</u>				
British Columbia	391	13.1	3.3	12.9
Alberta	272	9.1	2.1	8.2
Saskatchewan	217	7.3	1.5	5.9
Manitoba	162	5.4	1.2	4.7
Ontario	995	33.4	8.1	31.8
Quebec	704	23.7	7.4	29.0
New Brunswick	83	2.8	0.7	2.8
Nova Scotia	98	3.3	0.8	3.1
Prince Edward Island	31	1.1	0.2	.8
Newfoundland	24	0.8	0.2	.8
Total	<u>2,977</u>	<u>100.0</u>	<u>25.5</u>	<u>100.0</u>

SMALL BUSINESS LOANS (Cont'd)

TABLE III

Loans to Service Business from Inception to Dec. 31, 1961

	<u>Number</u>	<u>Per cent</u>	<u>Amount \$ million</u>	<u>Per cent</u>
Provision of food & lodgings	787	59.9	8.6	67.3
Care of person & personal effects	158	12.0	1.3	10.2
Services to other service business	41	3.1	.3	2.3
Amusement & recreation	78	6.0	.9	6.9
Miscellaneous	<u>249</u>	<u>19.0</u>	<u>1.7</u>	<u>13.3</u>
Total	<u>1,313</u>	<u>100.0</u>	<u>12.8</u>	<u>100.0</u>

TABLE IV

Loans to Retailers from Inception to Dec. 31, 1961

	<u>Number</u>	<u>Per cent</u>	<u>Amount \$ million</u>	<u>Per cent</u>
Stores				
Grocery	241	25.0	1.7	26.1
Clothing	98	10.1	0.8	11.6
Hardware	63	6.5	0.4	6.4
Equipment	53	5.5	0.3	4.2
Department	105	10.9	0.7	9.9
Furniture	45	4.7	0.4	6.4
Electrical	47	4.9	0.2	3.9
Drug	86	8.9	0.7	9.9
Miscellaneous	<u>227</u>	<u>23.5</u>	<u>1.5</u>	<u>21.6</u>
Total	<u>965</u>	<u>100.0</u>	<u>6.7</u>	<u>100.0</u>

TABLE III

Loans to Service Business from Operation to Date

Category	1937	1938	1939	Total
Provision of food & lodgings	287	29.9	8.6	325.5
Care of person & personal effects	198	12.0	1.9	211.9
Services to other service business	41	3.1	.7	44.8
Amusement & recreation	78	6.0	.9	84.9
Total	504	51.0	11.2	566.2

TABLE IV

Loans to Service Business from Operation to Date

Category	1937	1938	1939	Total
Grocery	241	22.0	1.7	264.7
Clothing	78	10.1	0.8	88.9
Hardware	63	6.2	0.4	69.6
Furniture	29	2.2	0.3	31.5
Department	102	10.9	1.7	114.6
Electrical	45	4.7	0.4	50.1
Drugs	11	4.9	0.2	16.1
Other	36	3.2	0.7	40.9
Total	504	51.0	11.2	566.2

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VETERANS' BUSINESS AND PROFESSIONAL LOANS

TABLE I

Loans

(Jan. 15, 1947 to March 31, 1962)

	<u>Number</u>	<u>Amount</u> <u>(in dollars)</u>
Total Loans	6,548	12,622,608
Total Repayments		<u>12,507,046</u>
Balance Outstanding (March 31, 1962)		115,562
Total Claims paid	245	272,109
Recoveries		<u>33,231</u>
Net Claims		<u>238,878</u>
Average size of Loans		1,928

TABLE II

Fiscal Year Ending March 31

	<u>Number</u>	<u>Amount</u> <u>(in dollars)</u>
1948*	3,316	5,841,390
1949	867	1,676,490
1950	542	1,058,217
1951	499	1,000,826
1952	406	890,822
1953	316	724,796
1954	251	583,006
1955	185	432,715
1956	139	341,368
1957	19	51,376
1958	4	11,000
1959	1	3,000
1960	2	4,602
1961	Nil	
1962	<u>1</u>	<u>3,000</u>
	<u>6,548</u>	<u>12,622,608</u>

* This covers the period Jan. 15, 1947 to March 31, 1948.

STATE OF NEW YORK

DEPARTMENT OF TAXATION

INCOME TAX

For the year ending December 31, 1960

Number	(in dollars)
Total Income	12,000,000
Total Deductions	12,000,000
Total Taxable Income	0
Total Tax	0
Total Refund	0
Total Credits	0
Total Payments	0
Total Liabilities	0
Total Assets	0
Total Equity	0
Total Claims	0
Average size of income	0

Financial Year Ending March 31

Year	Amount	Percentage
1960	1,000,000	10%
1959	1,000,000	10%
1958	1,000,000	10%
1957	1,000,000	10%
1956	1,000,000	10%
1955	1,000,000	10%
1954	1,000,000	10%
1953	1,000,000	10%
1952	1,000,000	10%
1951	1,000,000	10%
1950	1,000,000	10%
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1941	1,000,000	10%
1940	1,000,000	10%
1939	1,000,000	10%
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1937	1,000,000	10%
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1932	1,000,000	10%
1931	1,000,000	10%
1930	1,000,000	10%
1929	1,000,000	10%
1928	1,000,000	10%
1927	1,000,000	10%
1926	1,000,000	10%
1925	1,000,000	10%
1924	1,000,000	10%
1923	1,000,000	10%
1922	1,000,000	10%
1921	1,000,000	10%
1920	1,000,000	10%
1919	1,000,000	10%
1918	1,000,000	10%
1917	1,000,000	10%
1916	1,000,000	10%
1915	1,000,000	10%
1914	1,000,000	10%
1913	1,000,000	10%
1912	1,000,000	10%
1911	1,000,000	10%
1910	1,000,000	10%
1909	1,000,000	10%
1908	1,000,000	10%
1907	1,000,000	10%
1906	1,000,000	10%
1905	1,000,000	10%
1904	1,000,000	10%
1903	1,000,000	10%
1902	1,000,000	10%
1901	1,000,000	10%
1900	1,000,000	10%

* This covers the period from 1900 to 1960.

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VETERANS' BUSINESS AND PROFESSIONAL LOANS

TABLE III

(a) by Purposes: January 15, 1947 to March 31, 1962

	<u>Number</u>	<u>Per Cent</u>	<u>Amounts in millions of dollars</u>	<u>Per Cent</u>
Purchase of a business	1,598	24.4	3.7	29.4
Purchase of an interest in partnership or capital for new partnership	1,613	24.6	3.4	27.0
Purchase of machinery, tools, instruments or other equipment	1,538	23.5	2.6	20.6
Repairs of machinery, tools, instruments or other equipment	13	.2	- *	-
Construction, repairs or alterations of, or making additions to buildings or structures	721	11.0	1.5	11.9
Purchase of a motorized unit	<u>1,065</u>	<u>16.3</u>	<u>1.4</u>	<u>11.1</u>
Total	<u>6,548</u>	<u>100.0</u>	<u>12.6</u>	<u>100.0</u>

* Actual amount is \$16,678.

(b) by Provinces: January 15, 1947 to March 31, 1962

	<u>Number</u>	<u>Per Cent</u>	<u>Amounts in millions of dollars</u>	<u>Per Cent</u>
Ontario	2,453	37.5	4.7	37.3
Alberta	1,210	18.5	2.4	19.0
British Columbia	1,073	16.4	2.2	17.4
Saskatchewan	608	9.3	1.2	9.5
Quebec	391	6.0	.7	5.6
Manitoba	370	5.6	.7	5.6
Nova Scotia	183	2.8	.3	2.4
New Brunswick	157	2.4	.3	2.4
Prince Edward Island	97	1.5	.1	.8
Newfoundland	<u>6</u>	<u>-</u>	<u>-**</u>	<u>-</u>
Total	<u>6,548</u>	<u>100.0</u>	<u>12.6</u>	<u>100.0</u>

** Actual amount is \$15,424.

Statement of Assets and Liabilities

Part III

As at December 31, 1947

Particulars	Per Cent	Amount in Millions of Dollars	Per Cent
Purchase of a business	1.598	24.4	3.7
Purchase of an interest in partnership or capital for new partnership	1.513	24.6	3.6
Purchase of machinery, tools, instruments or other equipment	1.538	25.2	3.8
Acquisition of machinery, tools, instruments or other equipment	1.3	2.0	3.0
Construction, repairs or alterations of, or additions to buildings or structures	1.0	1.5	2.2
Purchase of a motorized unit	1.0	1.5	2.2

* Actual amount is \$10,498.

(b) by Provincial Government of Ontario

Province	Number	Per Cent	Amount in Millions of Dollars
Ontario	2,182	37.2	4.7
Alberta	1,210	18.2	2.4
British Columbia	1,023	16.4	2.2
Saskatchewan	608	9.3	1.3
Quebec	327	6.0	.7
Manitoba	300	5.0	.7
New Scotia	283	4.8	.6
New Brunswick	257	4.4	.6
Prince Edward Island	97	1.5	.2
Total	6,248	100.0	12.6

* Actual amount is \$15,124.



- V -

RELATIONS OF THE DEPARTMENT OF FINANCE WITH OTHER
DEPARTMENTS AND AGENCIES HAVING SPECIAL FINANCIAL
RESPONSIBILITIES

There are several Departments and Agencies of the Federal Government, in addition to the Department of Finance, that administer financial legislation or that carry on activities which directly affect financial markets. This section outlines the more formal relationships that exist between the Department of Finance and these other Departments and Agencies.

Before proceeding, it must be pointed out that the relationships, even the formal relationships, of the Department of Finance with other Departments and Agencies run far beyond those that are here described. Since most of the important activities of government cost money, it is natural and inevitable that there should be continuing links and associations between the Department primarily concerned with the public purse and all Departments and Agencies concerned with public administration and public policy. In addition, in modern times, a Department of Finance is, from its budgetary and related responsibilities, the Department chiefly responsible for an overall view of the state of the Canadian economy, domestic and international. Thus it comes about that the officers of the Department find themselves in contact with officers of other



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find themselves in contact with officers of other



1 Departments and Agencies on a day-to-day person-to-
2 person basis; officers of the Department are continually
3 attending informal meetings or consulting on the
4 telephone; and they serve on the majority of inter-
5 departmental committees and working groups that are
6 set up from time to time to consider financial,
7 economic or administrative matters.

8 This paper does not attempt the task of
9 reviewing all these activities - nor would such a
10 review be responsive to the Terms of Reference of
11 this Royal Commission. It would, however, appear
12 to be of direct value to the Commission to receive
13 an outline of the formal relationships of the
14 Department with certain Departments and Agencies
15 whose activities impinge directly on financial
16 affairs.

17
18 BANK OF CANADA

19 By virtue of the Bank of Canada Act, the
20 Minister of Finance, "on behalf of Canada", is the
21 sole shareholder of the Bank. It is he who, with the
22 approval of the Governor-in-Council, appoints the
23 directors of the Bank. The Bank is required by
24 statute to make weekly, monthly, and annual reports
25 to him on its operations.

26 The Deputy Minister of Finance, under
27 Section 5 (2) of the Bank of Canada Act, is a
28 member of the Board of Directors of the Bank without
29 the right to vote. Similarly, under Section 13 (2)
30 he is a member of the Executive Committee, subject



Departments and Agencies on a day-to-day person-to-person basis; officers of the Department are continually attending informal meetings or consulting on the telephone; and they serve on the majority of inter-departmental committees and working groups that are set up from time to time to consider financial, economic or administrative matters.

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The Deputy Minister of Finance, under Section 5 (2) of the Bank of Canada Act, is a member of the Board of Directors of the Bank without the right to vote. Similarly, under Section 15 (2) he is a member of the Executive Committee, subject



1 to the same limitation concerning the right to
2 vote. In his capacity as director and member of
3 the Executive Committee he attends meetings of
4 both bodies. The Minister of Finance appoints an
5 alternate official from the Department to attend
6 meetings in Deputy Minister's absence.

7 There are two specific areas of respons-
8 ibility assigned by statute directly to the
9 Minister of Finance in which he has sought and
10 obtained the services of the Bank of Canada.
11 These are the public debt and the exchange fund.

12 The Bank of Canada Act provides (Section
13 20 (1)) that the Bank shall act as fiscal agent for
14 the Government of Canada. It also provides (Section
15 20 (2)) that the Bank shall "if and wher required
16 by the Minister so to do", act as agent for the
17 Government "in the payment of interest and principal
18 and generally in respect of the management of the
19 public debt of Canada". The Bank has been
20 directed to perform this function.

21 While the Bank of Canada has been
22 assigned responsibility for the daily management
23 of the public debt, the Minister of Finance obtains
24 advice from the Deputy Minister concerning debt
25 management in general, and also concerning such
26 specific matters as individual issues of bonds
27 to the market, Canada Savings Bond campaigns, and
28 the operations of the Purchase Fund. The Deputy
29 Minister maintains direct contact with the Governor,
30 of the Bank and the Bank's officers who operate



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1 in the market.

2 The Exchange Fund, for which the Minister
3 of Finance has direct responsibility, is by statute
4 (The Currency, Mint and Exchange Fund Act) an account
5 in the name of the Minister in the Bank of Canada.
6 The operations of this account are carried out by
7 the Bank of Canada on instructions from the Minister.
8 In arriving at decisions concerning the Exchange
9 Fund the Minister obtains advice both from the
10 Governor of the Bank and the Deputy Minister of
11 Finance, and also from the Assistant Deputy Minister
12 who represents Canada as an Executive Director of
13 the International Monetary Fund.

14
15 INDUSTRIAL DEVELOPMENT BANK

16 The Industrial Development Bank is a
17 wholly owned subsidiary of the Bank of Canada. By
18 statute, the Industrial Development Bank is required
19 to make periodic reports to the Minister of Finance
20 regarding its operations.

21 As in the case of the Bank of Canada, the
22 Deputy Minister of Finance is a director of the
23 Industrial Development Bank and a member of its
24 Executive Committee. In the case of the Industrial
25 Development Bank, however, he is entitled to vote,
26 both on the Board and on the Executive Committee.

27 (Note. The operations and functions
28 of the Bank of Canada and of the Industrial
29 Development Bank are described in submissions that
30 have been supplied to the Royal Commission by those
two organizations.)



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CANADIAN NATIONAL RAILWAYS

All capital stock of the Canadian National Railway Company is issued to the Minister of Finance and held by him in trust for Her Majesty. However, the Minister has no special powers or responsibilities in connection with the appointment of the President or the Board of Directors, or the policies and functions of the Company.

The Minister of Finance has joint responsibility with the Minister of Transport for recommending to the Governor-in-Council, for subsequent submission to Parliament by the Minister of Transport, the annual budget of the C.N.R., including amounts required for capital expenditures, for refunding or retirement of maturing securities, and for working capital. This responsibility gives the Minister of Finance influence over the size of the demands to be made by the C.N.R. on capital markets, either directly through the sale of C.N.R. securities to the public, or indirectly through the sale of securities of the Government of Canada to cover capital requirements met by the Treasury out of the Consolidated Revenue Fund through the purchase of C.N.R. stock or the extension of loans to the C.N.R.

By statute, all securities issued and sold by the C.N.R. must be approved in detail by the Governor-in-Council. Provision is made for such securities to be guaranteed as to both principal and interest by Canada, and in practice all C.N.R.



NATIONAL RAILWAY COMPANY

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The Minister of Finance has joint responsibility with the Minister of Transport for recommending to the Governor-in-Council, for subsequent submission to Parliament by the Minister of Transport, the annual budget of the C.N.R., including amounts required for capital expenditures, for refunding or retirement of maturing securities, and for working capital. This responsibility gives the Minister of Finance influence over the size of the demands to be made by the C.N.R. on capital markets, either directly through the sale of C.N.R. securities to the public, or indirectly through the sale of securities of the Government of Canada to cover capital requirements met by the Treasury out of the Consolidated Revenue Fund through the purchase of C.N.R. stock or the extension of loans to the C.N.R.

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1 securities sold to the public are so guaranteed.
2 Thus they become obligations of the Government of
3 Canada and for statistical purposes (though not in
4 the Public Accounts) they are regarded as part of the
5 public debt.

6 C.N.R. securities sold to the public
7 are subject to exactly the same scrutiny and
8 procedures as issues of the Government itself. The
9 roles of the Minister of Finance, the Deputy Minister
10 of Finance and the Bank of Canada are the same in
11 connection with C.N.R. issues as they are in
12 connection with government bonds.

13 Trans-Canada Air Lines is a wholly owned
14 subsidiary of the C.N.R. Its budget is separate, and
15 receives the same scrutiny as that of the C.N.R.
16 However, its capital requirements are met directly
17 by the C.N.R., and are reflected in the overall
18 financing of the C.N.R.

19
20 CENTRAL MORTGAGE AND HOUSING CORPORATION

21 When the CMHC was established by
22 statute in 1945 most of the operational functions
23 previously exercised by the Minister of Finance
24 under the various National Housing Acts were delegated
25 to the Corporation. The Minister of Finance has no
26 direct administrative responsibility for the
27 Corporation; the Minister responsible to Parliament
28 for the administration of the National Housing Act
29 and the CMHC Act is the Minister of Public Works.
30 However, one of the three directors of the Corporation



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1 appointed by the Government from the public service
2 has always been a senior official of the Department of
3 Finance, and this official has invariably also been
4 a member of the Executive Committee of the Corporation.
5 This Committee exercises some of the powers of the
6 Board and meets not less often than once a month.
7 It operates as the senior management committee of the
8 Corporation. All projected changes in the National
9 Housing Act which have financial implications, or in
10 the regulations issued under the Act, are the subject
11 of prior discussion between the two Ministers
12 concerned, and between the officers of the Corporation
13 and of the Department.

14 In April 1961 the Government decided
15 that CMHC should offer for sale from time to time
16 portions of its own portfolio of NHA mortgages with
17 a view to laying the foundations for the development
18 of an active secondary market in insured mortgages.
19 At the same time the Government established a
20 Mortgage Sales Advisory Committee in connection with
21 the auction arrangements. The Chairman of the
22 Committee is the Deputy Minister of Finance; its other
23 members are drawn from the Department of Finance, the
24 Bank of Canada and the CMHC.

25
26 FARM CREDIT CORPORATION

27 The Farm Credit Act provides for a
28 Corporation of five members appointed by the Governor-
29 in-Council and holding office during pleasure. One
30 of the members is designated by the Governor-in-Council



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THE KARM CREDIT ACT

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of the members is designated by the Governor-in-Council



1 as the Chairman of the Corporation, and one as Vice-
2 Chairman.

3 Since the Corporation took over the
4 functions of the Farm Loan Board, on October 5, 1959,
5 the departmental representation to the Board has
6 consisted of the Deputy Minister of Veterans
7 Affairs, a senior officer of the Department of
8 Agriculture, and a senior officer of the Department
9 of Finance. The Chairman is the chief executive
10 officer of the Corporation and he and the Vice-
11 Chairman devote their full time to the affairs of
12 the Corporation. All members of the Corporation
13 attend the Board meetings which consist of the
14 regular monthly meeting and occasional special
15 meetings when some matter of urgency arises. The
16 Board meetings are used to discuss the capital and
17 current budget of the Corporation, the structure
18 and organization, level of employees' salaries as
19 well as the formulation of the lending policies of
20 the Corporation.

21 The Farm Credit Corporation reports
22 to the Minister of Agriculture who is the Minister
23 responsible for the administration of the Farm
24 Credit Act.

25
26 EXPORT CREDITS INSURANCE CORPORATION

27 The Deputy Minister of Trade and
28 Commerce and the Deputy Minister of Finance constitute
29 the corporation known as the Export Credits Insurance
30 Corporation; there are, in addition, six other



as the Chairman of the Corporation, and one as Vice-

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the departmental representation to the Board has

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Agriculture, and a senior officer of the Department

of Finance. The Chairman is the chief executive

officer of the Corporation and he and the Vice-

Chairman devote their full time to the affairs of

the Corporation. All members of the Corporation

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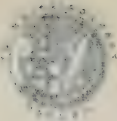
Corporation; there are, in addition, six other



1 directors, all of them public servants, appointed
2 by order-in-council and one of these is an Assistant
3 Deputy Minister of Finance. The Board of Directors
4 makes decisions relating to the various affairs of
5 the Corporation. For convenience these may be
6 summarized as follows:

- 7 (a) Administrative decisions relating to the
8 Corporations activities,
- 9 (b) General principles applying to short-term
10 credit insurance which constitutes the great
11 bulk of the Corporation's business,
- 12 (c) Medium-term insurance policies written by the
13 Corporation in relation to individual orders
14 (mostly for capital goods),
- 15 (d) Medium-term policies written not on behalf
16 of the Corporation but on behalf of
17 Government (because, while the transactions
18 are in the public interest, they involve risks
19 that run beyond the competence of the
20 Corporation), and
- 21 (e) Longer-term financial arrangements, as recently
22 provided for under Section 21 A of the Export
23 Credit Insurance Act.

24 In connection with (e) a special inter-
25 departmental committee has been established, and the
26 Department of Finance is represented on it. This
27 Committee provides, on an interdepartmental basis,
28 for a detailed analysis and appraisal of requests
29 for assistance to exports of capital goods in the
30 form of longer-term government finance.



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(a) Administrative decisions relating to the Corporation's activities,

(b) General principles applying to short-term

medium-term and long-term financial arrangements,

(c) Medium-term insurance policies written by the Corporation in relation to individual orders (mostly for capital goods),

(d) Medium-term policies written not on behalf of the Corporation but on behalf of Government (because, while the transactions are in the public interest, they involve risks that run beyond the competence of the Corporation), and

(e) Longer-term financial arrangements, as recently provided for under Section 21 A of the Export

Control Act.

In connection with (e) a special inter-departmental committee has been established, and the Department of Finance is represented on it. This Committee provides, on an interdepartmental basis, for a detailed analysis and appraisal of requests for assistance to exports of capital goods in the form of longer-term government finance.



1 EXTERNAL AID BOARD

2 The External Aid Board, set up in 1961,
3 provides interdepartmental advice to Ministers on
4 Canada's bilateral programmes of aid to under-
5 developed countries. The Department of Finance is
6 normally represented at meetings of the Board by
7 an Assistant Deputy Minister.

8 The Board keeps under continuous review
9 Canada's aid under the Colombo Plan to South and
10 Southeast Asia, under the Special Commonwealth
11 African Assistance Programme, under the programme
12 for the West Indies, and under other bilateral
13 aid programmes. The Chairman of the Board, who
14 is also Director General of the External Aid Office,
15 formulates proposals for consideration by the
16 Secretary of State for External Affairs.

17 (NOTE. The role of the Department of
18 Finance in relation to Canada's contributions
19 to multilateral aid programmes, financed by
20 contributions to common funds including those under
21 the auspices of the United Nations, is described
22 in a separate paper.)

23
24 UNEMPLOYMENT INSURANCE FUND

25 Under the statute the assets of the
26 Unemployment Insurance Fund were to be managed
27 by an Investment Committee consisting of the
28 Governor of the Bank of Canada, the Deputy Minister
29 of Finance and a senior official of the Department
30 of Labour. This Committee was responsible for all



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1 sales and purchases of securities on behalf of the
2 Unemployment Insurance Fund.

3 In the Budget of June 1961, the Minister
4 of Finance announced that all the holdings of the
5 Unemployment Insurance Fund, which up until that time
6 had been marketable securities, would be exchanged
7 for special non-marketable securities of the
8 Government of Canada. The exchange of securities
9 announced by the Minister took place in due course
10 and the holdings of the Unemployment Insurance Fund
11 now consist entirely of non-marketable securities
12 of the Government of Canada. When the cash position
13 of the Fund permits, the Fund purchases these
14 securities, which are issued by the Minister of
15 Finance as and when required by the Fund. From
16 time to time securities are redeemed by the Minister
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RELATIONS OF THE DEPARTMENT OF
FINANCE WITH CROWN AGENCIES

(A most useful and informative paper on Canadian Crown Corporations written by Mr. H. R. Balls, Comptroller of the Treasury, was published in the Indian Journal of Economics, January, 1960. Considerable parts of this section have been abstracted, verbatim or in paraphrase, from Mr. Balls' paper.)

The broad structure of public control over Crown agencies in Canada includes the statutory instruments or other authorities creating them, control over the appointment and removal of directors, in some instances control over salaries of senior officers, and approval of the annual budgets and methods of financing to be employed.

In this statement, attention will be concentrated on the review of Crown Agency budgets and control over financing methods, these two being the particular concern and responsibility of the Minister of Finance.

The Financial Administration Act enacted in 1951 defines a Crown Corporation as "a corporation that is ultimately accountable through a Minister to Parliament for the conduct of its affairs". Three classes of corporations are defined. These are departmental, agency, and proprietary, with specific control relationships being prescribed for each

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1 classification. These classes of corporations are
2 referred to specifically by name in Schedules B, C
3 and D of the Financial Administration Act.

4 Departmental corporations are those
5 listed in Schedule B of the Financial Administration
6 Act. A departmental corporation is defined as a Crown
7 corporation that is a servant or agent of Her Majesty
8 in right of Canada responsible for administrative,
9 supervisory or regulatory services of a governmental
10 nature. It is, in fact, an ordinary department of
11 government that has been given corporate status. It
12 is subject to the direction and control of a minister
13 and must rely on Parliament for annual appropriations
14 to cover its financial requirements.

15 An agency corporation listed in Schedule
16 C of the Act is defined as a Crown corporation that
17 is an agent of Her Majesty in right of Canada
18 responsible for the management of trading or service
19 operations on a quasi-commercial basis, or for the
20 management of procurement, construction or disposal
21 activities on behalf of the Crown. Like a department
22 or a departmental corporation, it is subject to a
23 considerable degree of ministerial control. Although
24 no very sharp line of division can be drawn, a
25 distinction can perhaps be made between a department
26 as the servant of a minister, and a corporation as
27 his agent.

28 A proprietary corporation listed in
29 Schedule D of the Act is defined as a Crown corporation
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An agency corporation listed in Schedule C of the Act is defined as a Crown corporation that is an agent of Her Majesty in right of Canada responsible for the management of trading or service operations on a quasi-commercial basis, or for the management of procurement, construction or disposal activities on behalf of the Crown. Like a department or a departmental corporation, it is subject to a considerable degree of ministerial control. Although no very sharp line of division can be drawn, a distinction can perhaps be made between a department as the servant of a minister, and a corporation as his agent.

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Schedule D of the Act is defined as a Crown corporation that is responsible for the management of lending or



1 financial operations, or for the management of
2 commercial and industrial operations involving the
3 production of, or dealing in goods, and the supplying
4 of services to the public. It is ordinarily expected
5 to be self-sustaining or in statutory language
6 "to conduct its operations without appropriations".
7 It usually has a considerable amount of managerial
8 freedom, and such control as the Minister or the
9 Governor in Council exercises over it is comparable
10 to that of a shareholder who holds all or a major
11 part of the stock of a private company. While the
12 Minister is not usually held responsible for the day-
13 to-day acts of the servants of a proprietary
14 corporation as he is for the acts of the officers
15 of his department, to ensure that there is an
16 adequate measure of public control and accountability,
17 he is often given a statutory right to intervene to give
18 advice or directions and to demand an accounting.
19 A further distinction is that, since the amendment
20 of the Income Tax Act in 1952, a proprietary corporation
21 is required to pay income tax.

22 Certain qualification should also be
23 noted. Some Crown corporations are not listed in
24 the schedules and are not subject to the Financial
25 Administration Act. Some are subject to specified
26 sections of the Act, while others are subject only
27 to those portions which are not in conflict with
28 their individual statutes. For example, the Bank
29 of Canada and the Industrial Development Bank, are
30 excluded from the application of the Financial



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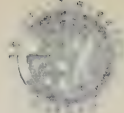


1 Administration Act and are governed solely by their
2 Acts of incorporation.

3 Power rests in the Governor in Council
4 to change the status of Crown agencies as defined
5 in the Financial Administration Act: an action
6 which normally would occur only when the function
7 or nature of the operations of a Crown agency changed.

8 All Agency and Proprietary corporations
9 prepare annual capital budgets which are submitted
10 to the Minister to whom they report and to the
11 Minister of Finance for concurrence. These are in
12 turn then submitted to Governor in Council for
13 approval and subsequently are tabled in Parliament.

14 The practice in recent years has been for
15 the Programme Analysis staff of the Treasury Board
16 to review and comment upon these capital budgets
17 and to submit their comments to the Deputy Minister
18 of Finance for approval and transmittal to the
19 Minister. It is not normal practice to require the
20 same amount of detail from Crown Agencies as is
21 the case with Departmental Estimates. Sufficient
22 information is required, however, with regard to
23 proposed expenditures for land, buildings, plant
24 and equipment, changes in working capital and
25 proposals for redemption of maturing debt. It is
26 usual, also, to require a statement indicating the
27 source of the required funds, i.e. Parliamentary
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29 earnings.



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1 As a significant part of the expenditure
2 analysis by the Treasury Board Staff, an attempt is
3 made to put the collective and individual plans of
4 the corporations into the broad perspective of the
5 total expenditure programme of the Government and to
6 formulate judgments about the priorities which attach
7 to corporation plans when compared with the total.

8 Agency corporations are required as well
9 to submit their operating budgets for the approval
10 of these two Ministers, but there is no requirement
11 that these be submitted to Parliament. Two exceptions
12 to this rule are, however, the Canadian National
13 Railways and Canadian Broadcasting Corporation, both
14 of which submit both capital and operating budgets.
15 In addition the Canadian Broadcasting Corporation
16 is required by its Statute to submit for the approval
17 of Council a five year capital programme forecast
18 with an indication of the impact of this on
19 operating requirements.

20 Except for a modest provision for making
21 working capital advances to Crown corporations, the
22 Financial Administration Act contains no specific
23 authority for financing the capital and operating
24 requirements of the corporations. Moreover, as
25 these advances may only be made to provide working
26 capital, and as they are limited to a maximum of
27 \$500,000 to any one corporation at any time and are
28 repayable within a period of 12 months, the authority
29 is a very restricted one. It is intended only to
30 meet urgent and unforeseen requirements, and Parliament



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1 has made other provision for the major financing
2 requirements of the corporations.

3 The methods of raising funds for the
4 capital purposes of a corporation are usually set
5 out in the company's statute of incorporation, but
6 provision may also be made in special statutes (as in
7 the case of the Canadian National Railways), or in
8 votes in the annual appropriation acts (as in the
9 case of Atomic Energy of Canada Limited and the
10 National Harbours Board). In practice capital
11 requirements are usually obtained from one or more
12 of a number of sources. They may be derived from
13 operating revenues or internal resources such as
14 depreciation and other reserves or provisions of the
15 corporation in so far as these are available and are
16 not required by law to be paid into the Consolidated
17 Revenue Fund, from the sale of bonds or debentures
18 to the public, with or without the guarantee of the
19 government, from loans, advances or outright grants
20 out of the Consolidated Revenue Fund, or from the
21 sale of equity stock to the government.

22 Where a corporation's funds are not
23 sufficient to finance its operating or capital
24 requirements, financial assistance for all or part of
25 its programmes is usually sought from the government
26 and may take one or more of several different forms.
27 For some corporations, funds for capital programmes
28 may be provided by parliamentary grants, loans or
29 advances, for others it may be by the issue of
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1 government or by the sale of bonds to the government
2 or the public. A few corporations have financed all or
3 a portion of their capital requirements from earnings
4 or other internal resources including provisions for
5 depreciation.

6 When a corporation requires assistance
7 for its operating programmes this is usually extended
8 through outright parliamentary grants unless there
9 is a reasonable expectation that operating deficits will
10 be offset by surpluses within a relatively short time.

11 Most Crown corporations provide annually
12 for depreciation on their fixed assets. In considering
13 requests from corporations for financial assistance to
14 carry out capital expenditure proposals the amount,
15 if any, of funds available from current or retained
16 earnings or from provisions for depreciation is taken
17 into account and the amount of any loan or grant
18 ultimately approved is usually a net figure. Where
19 a corporation is not self-sustaining and must seek
20 financial assistance from parliament not only for
21 capital expenditures but also for all or a portion
22 of its operating requirements the sum advanced on
23 operating account usually covers the depreciation
24 element in the operating costs. Any request by a
25 corporation for financial assistance to carry out
26 capital projects must indicate and make allowance for
27 the sum that is available from parliamentary grants
28 or other sources to cover the depreciation element
29 in the corporation's operating costs.

30 Where corporations are empowered to borrow



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in the corporation's operating costs. Where corporations are empowered to borrow



1 from the public, some, such as the Canadian Wheat
2 Board, have financed their requirements through
3 commercial bank loans guaranteed by the government,
4 and one, the Canadian National Railways, has raised
5 money by direct offerings of its government guaranteed
6 securities to the public. All such borrowings require
7 the approval of the Minister of Finance or the
8 Governor in Council.

9 There is no uniform pattern for the
10 financing of Crown corporations; in practice each
11 case is considered on its merits. Some corporations
12 are financed by the sale of equity stock to the
13 government while some are able to finance themselves
14 from retained earnings. Others are financed through
15 a combination of equity capital, interest bearing debt
16 and retained earnings. However, most Crown corporations
17 are financed either entirely or almost entirely (as
18 there may be an element of self-financing involved)
19 through interest bearing loans.

20 Government loans to Crown corporations
21 for the financing of capital expenditure programmes
22 (whether such programmes involve the acquisition or
23 construction of assets, the lending of funds to the
24 public or the strengthening of a corporation's
25 working capital position) are usually made on such
26 terms and conditions as are determined by the Governor
27 in Council. These terms and conditions will include
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1 set semi-annually for the ensuing six months on the
2 basis of the cost to the government of borrowing funds
3 for a comparable period plus approximately 1/8 of 1
4 per cent to cover borrowing costs not reflected in
5 the interest rate, and these rates are applicable for
6 the whole period of the loans.

7 Repayment of the loans is usually by
8 equal annual or semi-annual payments over the period
9 of the loan covering both principal and interest.
10 Where loans are granted for the acquisition of fixed
11 or physical assets the amortization schedules are
12 usually based on the expected useful life of the
13 assets for which loans are incurred, or on periods
14 stipulated in the applicable legislation. Where loans
15 to the corporation are for the purpose of relending
16 to the public the repayment period is usually based
17 on the period or periods over which the corporation
18 in turn will receive repayment.

19 When assets are acquired from loans
20 received from the government the corporations must
21 provide for repayment in accordance with the terms
22 of the loans. Instead of building up funds to be
23 available when capital assets have to be replaced,
24 the usual practice is to utilize current depreciation
25 provisions to cover current capital requirements and,
26 if necessary, to seek new loans to finance the
27 replacement of existing assets or the acquisition of
28 new ones on the basis of interest rates prevailing;
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30 Finally, it is customary for the Crown

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Nethercut & Young

Toronto, Ontario

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corporations, which have received, or are to receive, of money from the government, to indicate when any part of the money will be required. This information will permit an assessment to be made of the impact of such expenditures on the government's cash position.

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EMERGENCY GOLD MINING ASSISTANCE ACT

Canada's gold mining industry is for the most part located in areas stretching across the Pre-Cambrian shield in the Northern parts of Quebec, Ontario, Manitoba and Saskatchewan, the Northwest Territories, the Yukon, and the Rocky Mountain area of British Columbia. A number of towns and hamlets as well as some agricultural communities are solely or largely dependent on gold mining. The gold mining industry has traditionally played an important role in particular areas as well as in the economy as a whole, and had been of particular significance during the depression of the 1930's. Gold production then accounted for about one-third of the value of all mineral production in Canada and this was an important factor in supporting employment, business activity, and the country's international payments position.

The pre-war prosperity of the gold mining industry was, however, adversely affected by war and post-war developments. Under the impact of war-time mobilization of labour and materials for vital defence purposes, gold production declined from a high of \$206 million in 1941 to \$104 million in 1945. Contrary to expectations, the industry did not regain its earlier prosperity in the years following the war. The price paid for gold by the Royal Canadian Mint remained constant at \$35.00 (U.S.) per ounce, whereas the costs of production of the gold mines were affected during the post-war period by the



THE GOLD MINING INDUSTRY IN CANADA

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1 rising trend in wages and prices for materials and
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5 \$38.50 to \$35.00 per ounce. As a result, a large
6 segment of the gold mining industry experienced serious
7 difficulties.

8 During the immediate post-war period, a
9 number of mines were forced to close down, and some
10 of the remaining mines operated at a loss. In
11 referring to these conditions, the Minister of
12 Finance (Mr. Abbott) said (Canada, House of Commons
13 Debates, April 6, 1948, p. 2702):

14 "The closing down of marginal mines not only
15 would bring hardship to many northern communities
16 but would mean in many cases so great a cost
17 to reopen that the mines would probably be lost
18 forever as producing entities. Prospecting for
19 new properties had slowed down and it was
20 increasingly difficult to raise new funds for
21 exploration and development. If this process
22 were to continue unabated, serious damage
23 would be done to the existing social and
24 economic fabric of northern Canada, and the
25 further development of the north would probably
26 be slowed down materially."

27
28 In referring to an earlier announcement
29 to the effect that the government would extend
30 assistance to the gold mining industry, Mr. Abbott



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During the immediate post-war period, a number of mines were forced to close down, and some of the remaining mines operated at a loss. In referring to these conditions, the Minister of Finance (Mr. Abbott) said (Canada, House of Commons Debates, April 6, 1948, p. 2702):

"The closing down of marginal mines not only would bring hardship to many northern communities but would mean in many cases so great a cost to reopen that the mines would probably be lost forever as producing entities. Prospecting for new properties had slowed down and it was increasingly difficult to raise new funds for exploration and development. If this process were to continue unabated, serious damage would be done to the existing social and economic fabric of northern Canada, and the further development of the north would probably be slowed down materially."

In referring to an earlier announcement

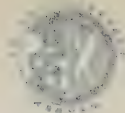
to the effect that the government would extend assistance to the gold mining industry, Mr. Abbott



continued (Canada, House of Commons Debates, April 6, 1948, p. 2702):

"This was the type of situation which the government's proposal was designed to remedy, the type of danger it was primarily designed to avoid. The bonus we propose to pay should enable most mines at least to maintain and perhaps to increase their current production to some moderate extent. It should enable many mines to avoid closing down with the hardship this would cause to many communities and the social and economic waste involved in the probable necessary transfer of population and the abandonment of homes and other forms of capital investment."

As originally indicated in November 1947, the government planned to pay assistance in the form of subsidy of \$7.00 per ounce. Following this announcement, representations were received from the industry to the effect that the proposed assistance payments would not serve to prevent the continued deterioration of the industry. As well, the International Monetary Fund took the position that the proposed subsidy would be inconsistent with the Fund's Articles of Agreement whereby member governments are committed not to buy gold at a price above parity (plus a prescribed margin). The Fund construed a straight subsidy to be in effect an increase in the price of gold in Canada. Concern was also expressed



continued (Canada, House of Commons Debates, April 6.

Id#8, p. 5105):

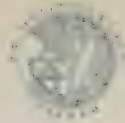


1 by the United States National Advisory Council that
2 some countries might become dependent on subsidized
3 gold production as a solution to the problem of
4 maintaining equilibrium in their balance of inter-
5 national payments.

6 In the light of these representations, the
7 government came forward with a revised assistance
8 programme providing for payments based on the cost
9 of production of individual mines. This revision had
10 the effect of making available, in the case of mines
11 with relatively high costs of production, assistance
12 in excess of the \$7.00 per ounce originally proposed
13 but less than \$7.00 per ounce in the case of mines
14 at the lower end of the cost scale. The new formula
15 was ultimately incorporated into the Emergency Gold
16 Mining Assistance Act.

17 This method of payment was in the view
18 of the International Monetary Fund not inconsistent
19 with exchange stability and the maintenance of
20 orderly exchange arrangements with other countries.
21 In referring to the position taken by the United
22 States National Advisory Council, Mr. Abbott made
23 the following statement (Canada, House of Commons
24 Debates, April 6, 1948, p. 2701):

25 "I do not need to assure the House that,
26 so far as Canada is concerned, there is not
27 very much danger in the contingency referred
28 to by the council, namely, that we shall
29 largely stimulate the production of gold as
30 the result of these subsidies. It is true



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Nethercut & Young

A 116

Toronto, Ontario

1 that the bonus payments we are providing
2 for should lead to some increase in production -
3 I hope they will - but we are not under any
4 illusion that the increased production for
5 this reason alone will be of such magnitude
6 as to become a major factor in the solution
7 of our immediate exchange problems. Any
8 contribution which it makes will, of course,
9 be most helpful, but unfortunately there are
10 other important factors at work which, unless
11 conditions change, will be bound to limit the
12 size of that contribution."



CONFIDENTIAL
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that the future payments we are providing
for should lead to some increase in production -
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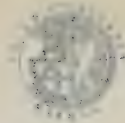
Summary of Legislation

The Emergency Gold Mining Assistance Act came into force on June 15, 1948 and was initially effective for the three calendar years 1948 to 1950. Subsequently the legislation was extended and amended from time to time. It was last extended in July 1960, to be effective until the end of 1963.

Amount of Assistance

Since the inception of the Act, assistance payable to a mine in respect of any one year has been determined according to a formula which can be summarized as follows. First, a mine can only qualify for assistance if its cost of production per ounce of gold exceeds the level set out in the legislation. Second, the amount of assistance varies proportionately with a mine's cost of production above this minimum level and the number of ounces of gold it produces. Third, there is a ceiling on assistance payments if a mine's cost of production exceeds the maximum level provided for in the legislation.

Since mines are only compensated for a proportion of their cost of production in excess of the minimum level, assistance is made available without removing the incentive to improve their financial position. Thus it will be to the advantage of a mine to achieve lower unit costs to the extent to which this is practical, having regard to the grade of ore mined and other relevant circumstances.



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1 It is apparent that the assistance
2 formula can be applied with a great deal of flexibility.
3 In practice, the changes which were made over the
4 course of the years in determining the eligibility
5 of individual mines and the amount of assistance
6 payable took into account a number of different
7 factors. These included the state of the industry
8 in the light of general economic conditions, the
9 exchange value of the Canadian dollar and the need
10 for further exploration, development and modern-
11 ization particularly for mines in communities largely
12 dependent on their continued existence.

13 In detail, assistance as currently
14 authorized under the Act can be described as follows:

- 15 (1) Assistance may be paid to mines whose
16 cost of production is higher than
17 \$26.50 per ounce.
- 18 (2) The Rate of Assistance payable is equal
19 to two-thirds of the amount by which the
20 cost of production per ounce exceeds
21 \$26.50, subject, however, to a ceiling
22 of \$12.33 per ounce.
- 23 (3) This Rate of Assistance is payable on
24 two-thirds of the number of ounces produced
25 in a given year (the Assistance Ounces).
- 26 (4) In addition, the amount of subsidy
27 calculated pursuant to (2) and (3) above
28 is increased by 25 per cent.

29 An outline of the assistance formulae which were in
30 effect in earlier years, is provided in an appendix



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In detail, assistance as currently
authorized under the Act can be described as follows:

- (1) Assistance may be paid to mines whose
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the cost of production of the same class of mines in the same district.
- (2) The Rate of Assistance payable is equal
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of \$12.50 per ounce.
- (3) This Rate of Assistance is payable on
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to this section.

Conditions of Eligibility

In order to be eligible for assistance in a given year, a mine with cost of production in excess of \$26.50 per ounce must fulfill the following conditions during that year:

(1) The value of gold produced must be 70 per cent or more of the total value of the output from the mine. This percentage was chosen with a view to providing assistance to mines which depend mainly on gold production but excluding mines which produce ores with a substantial content of other metals.

(2) Production must be more than 50 troy ounces of fine gold. This minimum production level was chosen to rule out operators who mine gold on an occasional basis only.

In addition, the Minister of Mines and Technical Surveys has the discretionary power to rule a mine ineligible for assistance if the operator of the mine has in the Minister's view failed to develop reserves of commercial significance, or has failed to make reasonable progress in reducing cost of production to a reasonable commercial level, or if the Minister is of the opinion that there are no

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reasonable prospects of attaining commercial production.

Assistance is payable to an eligible mine only with respect of gold which is

(1) sold to the Royal Canadian Mint; or

(2) exported in the form of ore or ore concentrates;

or

(3) sold in the form of ore or ore concentrates

to a Canadian smelter, provided this smelter

sells the gold separated from the ore or

concentrates to the Royal Canadian Mint as

soon as practicable.

Administration

The Act is administered by the Department of Mines and Technical Surveys. A key element in the operations is the determination of the cost of production of individual mines for the purpose of assistance payments. The task of applying uniform procedures for cost determination is carried out by the Audit Services Division of the Comptroller of the Treasury, in collaboration with engineers from the Department of Mines and Technical Surveys.

To this end, the Act and the Regulations specify which expense items may or may not be included for calculating the assistance payment and these items cover operating cost, depreciation, pre-production expenses, and cost of exploration and development. The manner in which the cost of gold is to be calculated where other minerals are produced



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as well is also prescribed.

Applications for assistance are generally submitted at the end of each quarter. If found to be complete and in accordance with the Act and Regulations, they are approved, and an advance payment is made to the operator. The Regulations provide that the advance payment shall not exceed 90 per cent of the estimated assistance payable. When the final audit of the books of account has been completed, the remaining holdback is approved for payment.

Brief Review of Operations

The tables at the end of this section provide statistical data on the gold mining industry and on the assistance payments for the period 1948 to 1960. The amount of annual assistance has fluctuated between a low of \$8.7 million in 1956 and a high of \$16.3 million in 1954. For 1960, the last year under review, \$12.4 million was disbursed, or roughly the same as in 1949. In contrast, the amount of assistance paid per ounce of production has risen to a high of \$5.03 in 1960, or approximately double the amount paid in 1950.

It will be useful to distinguish between two types of gold mines,

lode gold mines which produce gold from hard-rock mines, and placer mines which recover gold from the gravels and sands of stream channels and beaches.

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During the period from 1950 to 1960, total output from all lode gold mines has remained quite stable, whereas production from lode gold mines receiving assistance has decreased from close to 80 per cent of total gold production in 1950 to about 55 per cent in 1960. Concurrently, there has been a pronounced drop in both the number of all lode gold mines and in the number of those receiving assistance.

Although these figures reflect in part the changes which occurred in the assistance formula from time to time, the data indicate that there has been some adjustment in the gold mining industry in the face of prevailing economic conditions. It is equally apparent that without the assistance programme these developments would have been less gradual. In fact, for high-cost mines (mines with a cost of production in excess of \$35.00 per ounce) - the sector of the industry where the assistance programme plays a particularly important role - production remained relatively stable until 1959 and rose by about one-third in 1960. As a result, in 1960 production from high-cost mines accounted for about 30 per cent of

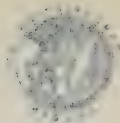


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production from all lode gold mines, whereas 10
years earlier, high-cost mines accounted for about
25 per cent.



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Production from all gold mines, 1917
years earlier, high-cost mines accounted for about
25 per cent.

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Summary of Changes in
Assistance Payable
1948 - 1963

<u>Years</u>	<u>Rate of Assistance</u>	<u>Assistance Ounces</u>
1948-1949	$\frac{1}{2} \times (\text{cost/oz.} - \$18.00)$, up to a maximum of \$16.00/oz.	Annual production, minus $\frac{2}{3}$ base year(1) production, but not less than $\frac{1}{3}$ of annual production.
1950 (Jan.1-Sept.30)	$\frac{1}{2} \times (\text{cost/oz.} - \$18.00) - \$3.50$, up to a maximum of \$12.50	Annual production, minus $\frac{2}{3}$ base year(1) production, but not less than $\frac{1}{3}$ of annual production.
1950 (Oct.1-Dec.31)	$\frac{1}{2} \times (\text{cost/oz.} - \$18.00)$ up to a maximum of \$16.00	Annual production, minus $\frac{2}{3}$ base year(1) production, but not less than $\frac{1}{3}$ of annual production.
1951-1952	$\frac{1}{2} \times (\text{cost/oz.} - \$22.00)$, up to a maximum of \$11.50/oz.	Annual production, minus $\frac{1}{2}$ of base year(2) production, but not less than $\frac{1}{2}$ of annual production.
1953-1954	$\frac{1}{2} \times (\text{cost/oz.} - \$18.00)$ up to a maximum of \$13.50/oz.	Annual production, minus $\frac{1}{2}$ of base year(2) production, but not less than $\frac{1}{2}$ of annual production.
1955-1957	$\frac{2}{3} \times (\text{cost/oz.} - \$26.50)$, up to a maximum of \$12.33/oz.	$\frac{2}{3}$ of annual production(3)
1958-1963	Same as in 1955-1957, plus 25%	

(1) Base Year: Twelve Month period ending June 30, 1947.

(2) Base Year: Either 1948, 1949 or 1950, as elected at option of each mine. For mines which came into production after January 1, 1950, first year of production.

(3) From 1955 on reference to a base year was omitted from the definition of Assistance Ounces.

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TABLE I
Gold Production and Assistance Payments
1948 - 1960

Year	Gold Production from Eligible Mines		Gold Production from Ineligible Mines		Gold Production as By-Product from Base Metal Mines		Total Canadian Gold Production		Assistance Payments		Per Ounce Produced by Eligible Mines (in \$)
	Production (millions) (of oz.)	Percentage of Canadian Gold Production (Per cent)	Production (millions) (of oz.)	Percentage of Canadian Gold Production (Per cent)	Production (millions) (of oz.)	Percentage of Canadian Gold Production (Per cent)	Production (millions) (of oz.)	Total (in millions) (of \$)	Total (in millions) (of \$)		
1948	3.5	79	n.a.	n.a.	3.5	10.5	3.5	10.5	3.33		
1949	3.2	72	3	7	4.1	12.6	4.1	12.6	3.48		
1950	2.9	65	.6	14	4.4	9.0	4.4	9.0	2.55		
1951	3.2	78	1.0	22	4.4	10.7	4.4	10.7	3.30		
1952	3.8	88	.4	10	4.5	10.8	4.5	10.8	3.76		
1953	3.0	67	-	20	4.1	14.7	4.1	14.7	4.62		
1954	2.5	57	.9	30	4.3	16.3	4.3	16.3	4.29		
1955	2.7	62	1.3	25	4.5	8.9	4.5	8.9	2.97		
1956	2.4	54	1.1	28	4.4	8.7	4.4	8.7	3.46		
1957	2.7	59	1.3	33	4.4	9.7	4.4	9.7	3.55		
1958	2.4	54	1.5	33	4.6	11.4	4.6	11.4	4.28		
1959	2.5	54	1.5	33	4.5	11.7	4.5	11.7	4.80		
1960	2.5	54	1.5	33	4.6	12.4	4.6	12.4	5.03		

TABLE I

Gold Production and Reserves by Country, 1960-1969

Country	Total Production 1960-1969 (millions of ounces)	Total Reserves 1960-1969 (millions of ounces)	Average Annual Production (1960-1969) (thousands of ounces)	Average Annual Reserve (1960-1969) (thousands of ounces)	Ratio of Reserve to Annual Production	Total Production 1960-1969 (millions of ounces)	Total Reserves 1960-1969 (millions of ounces)	Average Annual Production (1960-1969) (thousands of ounces)	Average Annual Reserve (1960-1969) (thousands of ounces)	Ratio of Reserve to Annual Production
Algeria	3.3	3.3	0.33	0.33	1.00	3.3	3.3	0.33	0.33	1.00
Argentina	3.4	3.4	0.34	0.34	1.00	3.4	3.4	0.34	0.34	1.00
Australia	3.5	3.5	0.35	0.35	1.00	3.5	3.5	0.35	0.35	1.00
Canada	3.6	3.6	0.36	0.36	1.00	3.6	3.6	0.36	0.36	1.00
Chad	3.7	3.7	0.37	0.37	1.00	3.7	3.7	0.37	0.37	1.00
Congo	3.8	3.8	0.38	0.38	1.00	3.8	3.8	0.38	0.38	1.00
Cote d'Ivoire	3.9	3.9	0.39	0.39	1.00	3.9	3.9	0.39	0.39	1.00
Dominican Republic	4.0	4.0	0.40	0.40	1.00	4.0	4.0	0.40	0.40	1.00
Equatorial Guinea	4.1	4.1	0.41	0.41	1.00	4.1	4.1	0.41	0.41	1.00
Ghana	4.2	4.2	0.42	0.42	1.00	4.2	4.2	0.42	0.42	1.00
Guinea	4.3	4.3	0.43	0.43	1.00	4.3	4.3	0.43	0.43	1.00
Guinea-Bissau	4.4	4.4	0.44	0.44	1.00	4.4	4.4	0.44	0.44	1.00
India	4.5	4.5	0.45	0.45	1.00	4.5	4.5	0.45	0.45	1.00
Indonesia	4.6	4.6	0.46	0.46	1.00	4.6	4.6	0.46	0.46	1.00
Italy	4.7	4.7	0.47	0.47	1.00	4.7	4.7	0.47	0.47	1.00
Japan	4.8	4.8	0.48	0.48	1.00	4.8	4.8	0.48	0.48	1.00
Kenya	4.9	4.9	0.49	0.49	1.00	4.9	4.9	0.49	0.49	1.00
Madagascar	5.0	5.0	0.50	0.50	1.00	5.0	5.0	0.50	0.50	1.00
Mali	5.1	5.1	0.51	0.51	1.00	5.1	5.1	0.51	0.51	1.00
Morocco	5.2	5.2	0.52	0.52	1.00	5.2	5.2	0.52	0.52	1.00
Niger	5.3	5.3	0.53	0.53	1.00	5.3	5.3	0.53	0.53	1.00
Nigeria	5.4	5.4	0.54	0.54	1.00	5.4	5.4	0.54	0.54	1.00
Romania	5.5	5.5	0.55	0.55	1.00	5.5	5.5	0.55	0.55	1.00
Russia	5.6	5.6	0.56	0.56	1.00	5.6	5.6	0.56	0.56	1.00
Senegal	5.7	5.7	0.57	0.57	1.00	5.7	5.7	0.57	0.57	1.00
Sierra Leone	5.8	5.8	0.58	0.58	1.00	5.8	5.8	0.58	0.58	1.00
Sudan	5.9	5.9	0.59	0.59	1.00	5.9	5.9	0.59	0.59	1.00
Tanzania	6.0	6.0	0.60	0.60	1.00	6.0	6.0	0.60	0.60	1.00
Togo	6.1	6.1	0.61	0.61	1.00	6.1	6.1	0.61	0.61	1.00
Tunisia	6.2	6.2	0.62	0.62	1.00	6.2	6.2	0.62	0.62	1.00
Uganda	6.3	6.3	0.63	0.63	1.00	6.3	6.3	0.63	0.63	1.00
Ukraine	6.4	6.4	0.64	0.64	1.00	6.4	6.4	0.64	0.64	1.00
Yugoslavia	6.5	6.5	0.65	0.65	1.00	6.5	6.5	0.65	0.65	1.00

TABLE II

Operations of Lode Gold Mines(1)
1948 - 1960

Year	Total Production from All Gold Mines(2)	Total Production from All Lode Gold Mines	Total Production from Lode Gold Mines Receiving Assistance	Number of All Lode Gold Mines	Number of Lode Gold Mines Receiving Assistance
	(-----in millions of ounces-----)				
1948	n.s.	3.1	3.1	87	87
1949	n.s.	3.5	3.5	92	92
1950	3.8	3.8	3.4	83	82
1951	3.8	3.7	3.2	77	75
1952	3.9	3.8	2.8	74	61
1953	3.6	3.5	3.1	69	64
1954	3.8	3.7	3.7	66	62
1955	3.9	3.9	2.9	61	50
1956	3.8	3.7	2.4	57	45
1957	3.8	3.8	2.7	53	44
1958	4.0	3.9	2.6	55	44
1959	3.9	3.9	2.4	53	44
1960	4.0	3.9	2.5	53	44

(1) Lode gold mines are hard-rock mines, in contrast to placer mines which recover gold from the gravels and sands of stream channels and beaches.

(2) Including lode gold mines and placer mines, but excluding base metal mines producing gold as a by-product.

TABLE

Operations of Lode Gold Mines (1)
1948 - 1960

Year	Production from All Lode Mines (2)	Production from All Lode Mines	Production from Lode Mines Recovering Reserves	Number of All Lode Mines	Number of Lode Mines Recovering Reserves
1948	4.4	3.1	3.1	10	10
1949	4.4	3.2	3.2	10	10
1950	4.4	3.3	3.3	10	10
1951	4.4	3.4	3.4	10	10
1952	4.4	3.5	3.5	10	10
1953	4.4	3.6	3.6	10	10
1954	4.4	3.7	3.7	10	10
1955	4.4	3.8	3.8	10	10
1956	4.4	3.9	3.9	10	10
1957	4.4	4.0	4.0	10	10
1958	4.4	4.1	4.1	10	10
1959	4.4	4.2	4.2	10	10
1960	4.4	4.3	4.3	10	10

-----in millions of ounces-----

(1) Lode gold mines are hydrocarbon mines, in contrast to placer mines which recover gold from the gravel and sands of stream channels and beaches.

(2) Including lode gold mines and placer mines, but excluding base metal mines producing gold as a by-product.

TABLE III

High-Cost
Lode Gold Mine Operations *

Year	Production from All Lode Gold Mines Receiving Assistance	Production from High-Cost Lode Gold Mines	Number of Lode Gold Mines Receiving Assistance	Number of High-Cost Lode Gold Mines
	(----in millions of ounces ----)			
1948	3.1	.94	87	42
1949	3.5	.81	92	45
1950	3.4	.96	82	45
1951	3.2	.93	75	40
1952	2.8	.92	61	35
1953	3.1	.60	64	24
1954	3.7	.77	62	22
1955	2.9	.74	50	23
1956	2.4	.93	45	29
1957	2.7	.80	44	24
1958	2.6	.78	44	26
1959	2.4	.90	44	28
1960	2.5	1.20	44	33

* For purposes of this table, high-cost lode gold mines are those whose cost of production per ounce allowable under the Regulations is \$35.01 or more.

TABLE III

TABLE III - GOLD PRODUCTION AND RESERVES

Year	All Gold Reserves Millions of ounces	High-Cost Gold Reserves Millions of ounces	Low-Cost Gold Reserves Millions of ounces
1945	1.1	0.81	0.29
1946	3.2	0.96	2.24
1947	3.4	0.93	2.47
1948	3.6	0.92	2.68
1949	3.1	0.80	2.30
1950	3.7	0.77	2.93
1951	3.9	0.74	3.16
1952	3.4	0.93	2.47
1953	3.7	0.90	2.80
1954	3.6	0.78	2.82
1955	3.4	0.90	2.50
1956	3.2	0.81	2.39

* For purposes of this table, high-cost gold reserves are those whose cost of production per ounce exceeds the regulation at \$35.01 or more.



- VIII -

RELATIONS OF THE DEPARTMENT OF FINANCE WITH
PROVINCIAL AND MUNICIPAL GOVERNMENTS

The main aspects of the continuing financial relationships of the Department of Finance with provincial and municipal governments are centred in the work of its Federal-Provincial Relations Division. This Division fills a co-ordinating role with respect to federal-provincial relations although other divisions, in particular the Taxation Division and the Comptroller's Division in its role as auditor are necessarily closely associated with certain aspects of these relationships. The Federal-Provincial Relations Division was created in 1954 when a senior official was appointed to give full time to federal-provincial relations. The Division administers the statutory subsidies and the payments under the Federal-Provincial Fiscal Arrangements Act and the grants paid to municipalities in lieu of real property taxes. These are the unconditional payments made by the federal government as distinct from the conditional grants paid by other departments of the federal government as a share of the cost of specific expenditures made by provincial and municipal governments.

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1 conditional or cost-sharing grants. With the rapid
2 increase in cost-sharing programmes such as hospital
3 insurance, vocational training and various programmes
4 in the social welfare field, this is no longer true.
5 In 1956-57, unconditional grants including the value
6 of tax abatements to the provinces were \$553 million
7 or approximately five times as great as the
8 conditional grants. For 1962-63, it is estimated
9 that unconditional grants including the value of
10 tax abatements under the new tax collection agreements
11 will be \$969 million which is about 29 per cent
12 greater than the estimated conditional grants of
13 \$749 million. With this rapid increase in the cost-
14 sharing programmes, a much greater part of the
15 transfers to other levels of government now originates
16 with other departments.

conditional or cost-sharing grants. With the rapid increase in cost-sharing programmes such as hospital insurance, vocational training and various programmes in the social welfare field, this is no longer true. In 1956-57, unconditional grants including the value of tax abatements to the provinces were \$555 million or approximately five times as great as the conditional grants. For 1962-63, it is estimated that unconditional grants including the value of tax abatements under the new tax collection agreements will be \$669 million which is about 29 per cent greater than the estimated conditional grants of \$749 million. With this rapid increase in the cost-sharing programmes, a much greater part of the transfers to other levels of government now originates

also other departments.

Federal Contributions To or For the Benefit of the Provinces
(in millions of dollars)

	1956-57	1961-62	1962-63 estimated
<hr/>			
A. Unconditional Payments			
1. Statutory subsidies	22.8	23.5	23.5
2. Tax Abatements (estimated)	157.3	313.0	719.5
3. Tax rentals		312.6	-
4. Equalization (including stabilization)	365.9	167.9	161.1
5. 50% share of federal Estate Tax	-	-	15.3
6. 50% share of Income Tax on Power Utilities	6.6	6.4	6.5
7. Atlantic Provinces Adjustment grants .	-	25.0	35.0
8. Newfoundland Additional Grant	-	8.0	8.0
Sub-total	552.6	856.4	968.9
<hr/>			
B. Conditional Payments			
9. Agriculture	0.9	5.4	4.2
10. Health	36.4	48.9	49.2
11. Hospital Insurance	-	283.2	324.2
12. Welfare	38.4	143.8	150.8
13. Vocational Training, etc.	4.7	35.9	104.8
14. Highways and Transportation	26.9	40.3	50.2
15. Resource Development	2.7	21.2	23.1
16. Municipal Winter Works	-	24.2	37.9
17. Other	1.0	7.1	4.8
Sub-total	111.0	610.0	749.2
<hr/>			
C. Payments for the benefit of Provincial Institutions -			
18. University grants (including net value of abatement to Quebec)	16.0	27.2	37.1
19. Grants to Municipalities in lieu of taxes on federal government property	9.7	24.9	27.3
Sub-total	25.7	52.1	64.4
Total	689.3	1,518.5	1,782.5
<hr/>			

Contributions To or For the Benefit of the Provinces
(in millions of dollars)

A. Unconditional Payments		
1. Statutory subsidies	22.8	22.8
2. Tax Abatements (estimated)	157.3	157.3
3. Tax rentals	366.9	366.9
4. Equalization (including stabilization)	167.9	167.9
5. 50% share of Federal Estate Tax	-	-
6. 50% share of Income Tax on Power	-	-
7. Atlantic Provinces Adjustment Grants ..	58.0	58.0
8. Newfoundland Additional Grant	8.0	8.0
Sub-total	552.9	552.9
B. Conditional Payments		
9. Agriculture	6.9	6.9
10. Health	36.4	36.4
11. Housing	1.0	1.0
12. Welfare	1.0	1.0
13. Vocational Training, etc.	4.7	4.7
14. Highways and Transportation	28.9	28.9
15. Resource Development	2.7	2.7
16. Other	7.1	7.1
Sub-total	111.0	111.0
C. Payments for the benefit of Provincial Institutions -		
18. University Grants (including net value of abatement to Quebec)	10.0	10.0
19. Grants to Municipalities in lieu of taxes on Federal Government property	9.7	9.7
Total	682.3	682.3

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1 In addition to the direct relationships
2 that have developed between the Department of Finance
3 and each of the Treasury Departments of the
4 provincial governments largely as a result of the
5 tax-sharing arrangements, an important mechanism
6 exists for discussion and consultation among
7 provincial treasury officials and officials of the
8 Department of Finance. This is the Federal-Provincial
9 Continuing Committee on Fiscal and Economic Matters
10 which began as the Preparatory Committee of Officials
11 created at the Dominion-Provincial Conference in
12 April 1955 for the purpose of giving technical study
13 to proposed tax-sharing arrangements for the period
14 1957 to 1962, and which was given continuing status
15 at a subsequent Dominion-Provincial Conference. The
16 Deputy Minister of Finance is Chairman of the
17 Committee and each province has an officially
18 designated member, usually the Deputy Provincial
19 Treasurer. The Secretary of the Committee is the
20 Director of the Federal-Provincial Relations
21 Division of the Federal Department of Finance. The
22 Committee usually meets at least twice a year and
23 when new fiscal arrangements are being negotiated
24 with the provinces the meetings are much more
25 frequent. For example, the Committee held five
26 meetings in 1961 largely devoted to working out the
27 details of the new tax collection agreements.

28 The Committee has no authority to
29 make decisions, but following the discussions at
30 its meetings which frequently result in a consensus

In addition to the direct relationships that have developed between the Department of Finance and each of the Treasury Departments of the provincial governments largely as a result of the tax-sharing arrangements, an important mechanism exists for discussion and consultation among provincial treasury officials and officials of the Department of Finance. This is the Federal-Provincial Continuing Committee on Fiscal and Economic Matters which began as the Preparatory Committee of Officials created at the Dominion-Provincial Conference in April 1955 for the purpose of giving technical study to proposed tax-sharing arrangements for the period 1957 to 1962, and which was given continuing status at a subsequent Dominion-Provincial Conference. The Deputy Minister of Finance is Chairman of the Committee and each province has an officially designated member, usually the Deputy Provincial Treasurer. The Secretary of the Committee is the Director of the Federal-Provincial Relations Division of the Federal Department of Finance. The Committee usually meets at least twice a year and with the provinces the meetings are much more frequent. For example, the Committee held five meetings in 1961 largely devoted to working out the details of the new tax collection agreements. The Committee has no authority to make decisions, but following the discussions at its meetings which frequently result in a consensus



1 of views among all its members, each member reports
2 to his own government. Officials of the Department
3 of National Revenue are always present at the
4 meetings, and a member of the staff of the Privy
5 Council usually attends. When an item on the agenda
6 is of direct interest to other departments, for
7 example, Health and Welfare, both the federal and
8 provincial members of the Committee invite
9 appropriate colleagues to attend.

10 The subject matter discussed by
11 the Continuing Committee is much broader than the
12 specific tax-sharing arrangements proposed or in
13 effect. Such matters as the exemption of the Crown
14 from provincial and federal taxation, the procedures
15 for reimbursement of the provinces under shared-
16 cost programmes, the financial effects of shared-
17 cost programmes on the provinces, the economic
18 situation, forecasts of revenue, financing, the
19 measurement of fiscal need and many others have
20 been considered by the Committee. As Treasury
21 officials, the provincial members of the Committee have
22 been keenly interested in discussions of the economic
23 situation and its effect on their revenues and
24 financing. This is an interest which seems likely
25 to be enhanced under the new tax collection agree-
26 ments by which provinces reassume a greater measure
27 of detailed fiscal responsibility.

28 Through the medium of the Continuing
29 Committee and the Federal-Provincial Relations
30 Division there is a substantial degree of co-ordination



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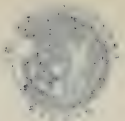
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1 of the relations of the Department of Finance with
2 other levels of government. There are other
3 relationships, however, which do not fall into this
4 pattern. These may be of a sporadic character or
5 may involve other special considerations. For
6 example, the negotiation of settlements with respect
7 to certain major flood damage in the provinces has
8 been dealt with by the Treasury Board Division.
9 Agreements between the Federal Government and
10 provinces or municipalities for the reciprocal
11 transfer of pension rights of employees transferring
12 from one service to the other have been dealt with
13 by a unit of the Department of Finance specialized
14 in this work.

15 The payments of federal grants to the
16 universities is made through the Canadian Universities
17 Foundation and does not involve relations with
18 provincial governments except in the Province of
19 Quebec where a special arrangement exists. In
20 Quebec, which administers its own university grants,
21 an additional abatement of 1 per cent in the rate
22 of corporation income tax is granted. This
23 arrangement which was introduced in 1960 has
24 involved special negotiations with the Province of
25 Quebec.

26 Apart from the payment of grants in lieu
27 of real property tax, there is little direct
28 communication with the municipalities. Municipalities
29 are creatures of the province and federal relations
30 are therefore primarily with the provinces. Close



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Nethercut & Young
Toronto, Ontario

A 13th

1 to 1,500 municipalities, including school districts,
2 are now in receipt of annual grants in lieu of real
3 property taxes and for the most part the settlement
4 of these grants proceeds smoothly.



- IX -

INTERNATIONAL FINANCIAL RELATIONS OF THE
DEPARTMENT OF FINANCE

1. Introduction

The international financial operations of the Department of Finance, which were very limited before World War II, are now extensive, in keeping with the greatly increased degree of international economic co-operation which now exists and Canada's vital interest in international economic relations.

The need at the end of the war for international efforts to promote the economic reconstruction of countries which had been seriously affected by the war led Canada to extend reconstruction credits to a number of countries and to support efforts to create an International Bank having reconstruction as one of its functions.

The recognition on the part of the highly developed countries that they should assume greatly increased responsibility for assisting less developed countries to expand and broaden their economies and to improve their standards of living is reflected in the primary function of the International Bank, in the subsequent creation of the International Finance Corporation and the International Development Association, and in the development aspects of the work of the Organization for Economic Co-operation and Development.

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1 The lessons of the international currency
2 experience between the two world wars led to general
3 recognition of the need for a soundly-based multi-
4 lateral system of world payments, the adoption of
5 rules to govern international exchange arrangements
6 (to supplement parallel rules in the field of trade),
7 and the provision of currency resources to assist
8 countries to overcome temporary exchange difficulties.
9 For these purposes the International Monetary Fund
10 was established. Canadians played an active and
11 influential part in the preliminary discussions
12 prior to and at the Bretton Woods Conference in
13 1944 when the Articles of Agreement of the
14 International Monetary Fund as well as the
15 International Bank for Reconstruction and Development
16 were drawn up. Canada has always been an active
17 participant in both organizations.

18 The smooth functioning of the multilateral
19 payments system requires close and continuous
20 consultation among the principal trading countries
21 concerning their economic and financial policies
22 and their balance of payments situation. One of
23 the purposes of the Organization for Economic
24 Co-operation and Development is to provide new
25 opportunities for the discussion of these matters
26 among the industrial countries of the North
27 Atlantic area.

28
29 2. Loans to National Governments

30 Following World War II (and to a far lesser



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1 extent, after World War I) the Canadian Government
2 found it desirable to make loans to certain of its
3 former allies. The needs of overseas countries for
4 Canadian products were very great, but they were not
5 yet in a position to pay for their full requirements
6 out of current earnings. In order to maintain and
7 provide for the future development of Canada's trade
8 it was considered important that these countries,
9 particularly Great Britain and certain countries in
10 Continental Europe, should be helped to reconstruct
11 their economies through financial assistance for the
12 purchase of Canadian foodstuffs and industrial
13 products. Accordingly the Canadian Government under-
14 took a large programme of credits on the basis of
15 moderate rates of interest and periods of payments
16 varying from 5 to 30 years.

17 Balances are still outstanding in respect
18 of past loans made to the United Kingdom under the
19 terms of the United Kingdom Financial Agreement Act
20 of 1946, and to Belgium, France and the Netherlands
21 under the terms of Section 22 of the Export Credits
22 Insurance Act of 1944. In addition, balances on
23 loans totalling \$80.2 million to China (post-World
24 War II), Greece and Roumania (post-World War I) are
25 still outstanding, but have been transferred to an
26 "inactive loans and investment account" since payments
27 of neither principal nor interest have been made for
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30 (a) Loans to the United Kingdom. Under authority of

found it desirable to make loans to certain of its former allies. The needs of overseas countries for Canadian products were very great, but they were not yet in a position to pay for their full requirements out of current earnings. In order to maintain and provide for the future development of Canada's trade it was considered important that these countries, particularly Great Britain and certain countries in Continental Europe, should be helped to reconstruct their economies through financial assistance for the purchase of Canadian foodstuffs and industrial products. Accordingly the Canadian Government undertook a large programme of credits on the basis of moderate rates of interest and periods of payments varying from 5 to 30 years.

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1 the United Kingdom Financial Agreement Act of 1946,
2 Canada extended a credit of \$1,250 million to the
3 Government of the United Kingdom, to be drawn any
4 time prior to December 31, 1951. The purpose of
5 the credit was to facilitate purchases of Canadian
6 goods and services by the United Kingdom, to help
7 the United Kingdom meet transitional postwar
8 deficits in its current balance of payments,
9 maintain adequate reserves of gold and dollars and
10 assume the obligations of multilateral trade. The
11 amount of the credit drawn by December 31, 1951, was
12 to be repaid in 50 annual instalments beginning
13 on that date with interest charges at 2 per cent.

14 Under this credit the United Kingdom
15 borrowed a total of \$1,185 million in the period
16 from 1947-1951. Repayments of principal have been
17 made every year since with the exception of 1957.
18 The Agreement, as amended in 1957, provides for
19 the deferment of interest in respect of 1956, and
20 for the possible deferral of seven instalments of
21 principal and interest after December 31, 1956,
22 under certain conditions. Principal and interest
23 due on December 31, 1957, were subsequently
24 deferred. Since that date there has been no
25 further deferment.

26 The first of any such deferred instalments
27 is payable on December 31, 2001, and others
28 annually thereafter. Interest at 2 per cent per
29 annum is payable on deferred instalments of
30 both principal and interest.



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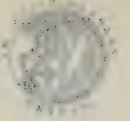
1 The outstanding balance as of October 31,
2 1962, on loans under the United Kingdom Financial
3 Agreement Act of 1946 was \$1,030.3 million of
4 principal plus a total of \$44.2 million representing
5 deferred interest for the years 1956 and 1957.

6 Annual interest payments on the loan are
7 credited to the Department of Finance account
8 entitled "Return on Investments", which appear as
9 a government budgetary non-tax receipt. Repayments
10 of principal on loans to national governments
11 are credited to "Loans to National Governments" as
12 non-budgetary receipts.

13 Under authority of the War Appropriation
14 (United Kingdom Financing) Act of 1942, Canada
15 also extended a loan of \$700 million to the
16 Government of the United Kingdom, which, under
17 the provisions of the Act, was to be non-interest-
18 bearing until after the termination of the war.
19 Subsequent United Kingdom Financial Agreement Acts
20 in 1946, 1951 and 1953 authorized the continuation
21 of the interest-free provision of the loan until
22 its redemption. Repayment of the loan commenced
23 in 1943 and continued annually until final re-
24 demption on December 1, 1958.

25
26 (b) Loans under Section 22 of the Export Credits

27 Insurance Act - 1944. Under this Act, Canada
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Library of Parliament
Ottawa, Canada

The following information is taken from the report of the

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to develop trade between Canada and these countries.



These loans which appear in the accounts of the Finance Department, were made to the following countries under the terms of the above Act: Belgium (\$68.0 million), China (\$51.0 million), Czechoslovakia (\$16.3 million), France (\$242.2 million), Netherlands (\$118.9 million), Indonesia (\$15.0 million), Norway (\$23.3 million) and the U.S.S.R. (\$2.9 million). The loans to Czechoslovakia, Indonesia, Norway and the U.S.S.R. have been repaid in full. Repayments from Belgium, France and Netherlands have all been made on schedule and, in addition France made an advance prepayment of \$67.6 million in July, 1962 and the Netherlands a similar prepayment of \$32.1 million in October, 1962. As of October 31, 1962, the balances still outstanding were:

Country	Total Credit Authorized (\$ millions)	Total Advances (\$ millions)	Rate of Interest (%)	Balance Outstanding on October 31 1962
				(\$ millions)
Belgium	100.0	68.0	3	32.3
France	242.5	242.2	3	67.6
Netherlands	124.0	118.9	various	32.1
Total	<u>467.5</u>	<u>429.1</u>		<u>132.0</u>



These loans which appear in the accounts of the Finance Department, were made to the following countries under the terms of the above Act:

U.S.S.R. (\$2.9 million). The loans to Czechoslovakia, Indonesia, Norway and the U.S.S.R. have been repaid in full. Repayments from Belgium, France and Netherlands have all been made on schedule and, in addition France made an advance prepayment of \$67.6 million in July, 1962 and the Netherlands a similar prepayment of \$32.1 million in October, 1962. As of October 31, 1962, the balances still outstanding were:

Country	Total Credit Authorized (\$ millions)	Total Advances (\$ millions)	Rate of Interest (%)	Balance on October 31, 1962 (\$ millions)	
				1962	1962
Belgium	100.0	68.0	3	32.3	
France	345.5	175.4			
Netherlands	124.0	118.9	various	32.1	
Total	467.5	459.1		132.0	



(c) Inactive Loans. No repayment has been made since 1955 on the balance of \$49.4 million still due on the loan of \$51.0 million to China which is now classified as inactive. Outstanding balances on two other loans on the books of the Finance Department - \$24.3 million to Roumania and \$6.5 million to Greece - are also classified as inactive. The former loan was made in 1919-1920; the latter in 1920-1921, and no payments of principal or interest have been made since 1931 in the case of Greece and since 1939 in the case of Roumania.

(d) Ming Sung Loan. In addition to loans made directly by the Canadian Government to foreign countries, mention should be made of the Ming Sung Loan which was guaranteed by the Government of Canada. In November 1946 the Minister of Finance, acting under authority granted to him under Part II of the Export Credits Insurance Act, guaranteed a credit of \$12,750,000 which a group of Canadian banks provided to the Ming Sung Industrial Co. Ltd. The Government of China also guaranteed the obligations of the Ming Sung Company in this respect. This loan was used to purchase 9 ships constructed in Canadian shipyards for use in China.

The Ming Sung Industrial Co. Ltd. did not make any payment of principal or interest on this loan and the Chinese Government guarantee



(c) Inactive Loans. No repayment has been made since 1955 on the balance of \$49.4 million still due on the loan of \$51.0 million to China which is now classified as inactive. Outstanding balances on two other loans on the books of the Finance Department - \$1.5 million to Mexico and \$1.5 million to Greece - are also classified as inactive. The former loan was made in 1919-1920; the latter in 1920-1921, and no payments of principal or interest have been made since 1951. The latter loan was made in 1919-1920; the former loan was made in 1919-1920; of Romania.

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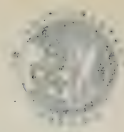
was not fulfilled (except to the extent of \$26,875).

Accordingly, the Government of Canada was required to pay the Canadian banks concerned a total of \$14,470,310 of which the final instalment was paid in 1960-61.

(e) Special Loans to India and Ceylon. In the fiscal years from 1958 to 1960 Canada lent a total of \$35 million to India and Ceylon to finance the purchase of wheat and flour from Canada. India borrowed a total of \$33 million; \$16.2 million in fiscal 1958 and \$16.8 million in fiscal 1959. Ceylon borrowed a total of \$2 million in fiscal 1959-1960. All loans carry interest at $4\frac{1}{4}$ per cent per annum and are to be repaid in seven equal annual instalments from 1961 to 1967.

(f) Wheat Sales to China. The Government has guaranteed, by Order-in-Council pursuant to the Canadian Wheat Board Act, bank advances made to the Canadian Wheat Board for financing the sale of Canadian wheat and barley to the China National Cereals, Oils and Foodstuffs Import and Export Corporation. Although this is not, strictly speaking, a transaction between governments, this credit arrangement is similar to the other measures described in this section and might, therefore, be considered under the same heading.

Sales contracts are negotiated from time to



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Sales contracts are negotiated from time to



time between the Canadian Wheat Board and the Chinese agency under an agreement covering the period June, 1961 to December, 1963. The terms of settlement under these contracts call for payment in cash of 25 per cent of the sales value of the grain with the balance due within 273 days. Bank credit is used to finance the credit portion of these sales and the Minister of Finance has been authorized to guarantee to the chartered banks the repayment of advances made to the Canadian Wheat Board of an amount not in excess of \$100 million outstanding at any one time. For the period ending October 31, 1962, about 125 million bushels of wheat and barley have been shipped under the terms of the credit arrangements with the Chinese agency. To date all due payments have been made on time.

3. International Bank for Reconstruction and Development (IBRD)

This Bank was established after the end of the war for the purpose of assisting in the reconstruction and development of its member countries. To this end, the Bank was empowered to facilitate the investment of capital for productive purposes and to make loans out of its own funds obtained from capital subscriptions and through borrowing in financial markets, when private capital is not available on reasonable terms.



time between the Canadian Wheat Board and the Chinese agency under an agreement covering the period June, 1961 to December, 1962. The terms of settlement under these contracts call for payment in cash of 25 per cent of the sales value of the grain with the balance due within 275 days. Bank credit is used to finance the credit portion of these sales and the Minister of Finance has been authorized to guarantee to the chartered banks the repayment of advances made to the Canadian Wheat Board of an amount not in excess of \$100 million outstanding at any one time. For the period ending October 31, 1962, about 125 million bushels of wheat and barley have been shipped under the terms of the credit arrangements with the Chinese agency. To date all due payments have been made on time.

3. International Bank for Reconstruction and Development

(1961)

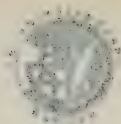
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1 In addition the Bank is empowered to
2 guarantee loans by private lenders although this
3 authority has not been exercised. The Bank's loans
4 are granted on conventional terms - they bear
5 realistic rates of interest, must be repaid within
6 a reasonable time period and both principal and
7 interest are repayable in the currency in which the
8 loan is made.

9 Initially the authorized capital of the
10 Bank was U.S. \$10 billion and Canada's original
11 contribution was U.S. \$325 million. Under the terms
12 of the articles of agreement Canada paid 2 per cent
13 of this amount (U.S. \$6.5 million) in U.S. dollars
14 and a further 18 per cent in Canadian dollars. This
15 latter amount (equivalent to U.S. \$58.5 million) was
16 released by the Canadian Government for use by the
17 Bank in 1952 and is now fully loaned.

18 In September, 1959, it was agreed that
19 the authorized capital of the Bank should be increased
20 from U.S. \$10 billion to U.S. \$21 billion and that
21 members should double their subscriptions to the Bank's
22 capital. Calls on new subscriptions would not be made
23 for use in the operations of the Bank, however, and
24 these subscriptions would remain subject to call to
25 meet the Bank's obligations. It was also agreed that
26 Canada, Germany, and Japan, should undertake additional
27 special increases in their subscriptions. Thus,
28 Canada's subscription increased from U.S. \$325
29 million to U.S. \$750 million, representing a doubling
30 of our original contribution plus a special increase of



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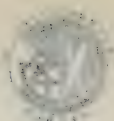
1 U.S. \$100 million. Of the special increase of U.S.
2 \$100 million, one per cent was paid in U.S. dollars,
3 and 9 per cent was paid in Canadian dollars and fully
4 released for use by the Bank. The remaining 90 per
5 cent of the special increase plus 100 per cent of the
6 "regular" increase in the Canadian subscription
7 remains uncalled and in the form of a guarantee for
8 the Bank's operations.

9 Since it was first established, the
10 Bank has raised a total of Canadian \$55 million in
11 the Canadian securities markets. Up until the end
12 of the second quarter of 1962, borrowers from the
13 IBRD had spent the equivalent of U.S. \$143.3 million
14 for purchases of goods and services in Canada.

15 As of June 30, 1962, there were 75
16 members of the Bank and subscribed capital amounted
17 to U.S. \$20.5 billion.

18 As of June 30, 1962, the gross total of
19 Bank loans signed was \$6.5 billion made up of 315
20 loans in 60 countries and territories. As a result
21 of cancellations, repayments and sales of loans, the
22 amount held by the Bank was approximately \$4.4 billion.

23 In addition to making loans and providing
24 technical assistance and advisory services, the IBRD
25 has also taken important initiatives in connection
26 with the development plans of India and Pakistan.
27 In 1958, in view of India's serious shortage of
28 foreign exchange, the Bank called a meeting of a
29 Consortium of member countries interested in the
30 financing of India's economic development. The



U.S. \$100 million. Of the special increase of U.S. \$100 million, one per cent was paid in U.S. dollars, and 9 per cent was paid in Canadian dollars and fully released for use by the Bank. The remaining 90 per cent of the special increase plus 100 per cent of the "regular" increase in the Canadian subscription for the Bank's operations.

Since it was first established, the Bank has raised a total of Canadian \$25 million in the Canadian securities markets. Up until the end of the second quarter of 1962, borrowers from the IBRD had spent the equivalent of U.S. \$14.5 million for purchases of goods and services in Canada.

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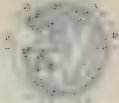


1 countries concerned were Canada, West Germany, Japan,
2 the United Kingdom and the United States; more
3 recently, France has joined the Consortium. As a
4 result of this and further meetings in 1959, 1960
5 and 1961 additional large-scale assistance was pledged
6 to India for the financing of its Second and Third
7 Five-Year Plans.

8 A similar Consortium, comprising the same
9 countries, was set up to consider the needs of Pakistan
10 and first met in October, 1960. This Consortium met
11 again in 1961 and its members agreed to provide sub-
12 stantial additional assistance to Pakistan.

13 Canada has played an active part in both
14 Consortia. Canada has been represented at meetings
15 of the two groups by senior officials of the
16 Department of Finance assisted by officials of
17 other Departments.

18 All powers of the IBRD are vested in a
19 Board of Governors which meets once a year to review
20 the operations of the Bank. The Minister of Finance
21 has been Governor of the IBRD for Canada, but at
22 present this position is held by the Minister of
23 Justice who was Minister of Finance from June, 1957
24 to August, 1962. The Board of Governors delegates
25 most of its powers to the 18 Executive Directors,
26 of whom 5 are appointed by the principal member
27 countries and 13 are elected by the other members.
28 Mr. A.F.W. Plumptre, Assistant Deputy Minister of
29 Finance is the Executive Director for Canada of both
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1 of Finance serves as the Alternate Executive Director.
2 This official resides in Washington and participates
3 actively in the work of the Bank under the guidance
4 of the Executive Director. He is at the same time
5 Counsellor (Finance) attached to the Canadian Embassy
6 in Washington.

7 Canada has been a very active supporter of
8 the IBRD. In the light of the success which the Bank
9 has had in its operations and in the interest of
10 effective co-ordination of aid programmes, Canada has
11 supported the central role of the Bank in this field
12 in preference to the creation of other kinds of
13 machinery on a multilateral basis such as have been
14 proposed from time to time.

15 Affiliated with the International Bank for
16 Reconstruction and Development are two other
17 organizations, the International Finance Corporation
18 and the International Development Association.

19 The International Finance Corporation (IFC)
20 came into existence in July 1956 as an affiliate of
21 the International Bank for investing in developing
22 member countries. It invests in productive private
23 enterprises in association with private capital and
24 management in cases where sufficient capital is not
25 available in the country concerned on reasonable terms.
26 These investments are not guaranteed by Governments.
27 Although the Corporation has its own professional
28 staff, it uses the services of the Bank's Economic
29 and Administrative Staff.

30 Canada's subscription to the International



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ATTACHMENT WITH THE INTERNATIONAL BANK FOR

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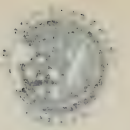
1 Finance Corporation is \$3.6 million and has been fully
2 paid.

3 Unlike the IBRD, the IFC has not sought to
4 raise funds through public sales of its obligations
5 although it is empowered to do so under its Articles
6 of Agreement. Consequently, the IFC has not borrowed
7 funds on the Canadian securities markets.

8 One of the first investments of the IFC was
9 in Bristol de Mexico, S.A., of which the majority
10 stockholder is The Bristol Aeroplane Company of Canada.
11 On that occasion, Bristol de Mexico entered into a
12 management contract with Bristol of Canada to furnish
13 a general manager and supervisory personnel as needed.
14 The IFC has also retained the services of Canadian
15 engineering firms in connection with some of its
16 investments.

17 The International Development Association
18 (IDA) came into existence in September, 1960, and
19 commenced operations in November, 1960. The
20 Association is a separate and distinct entity although
21 it is an affiliate of the International Bank. Initial
22 subscriptions to the capital of the Association total
23 U.S. \$1 billion, of which Canada's contribution is
24 U.S. \$37.83 million or 3.7 per cent. Of this amount,
25 U.S. \$15.98 million has so far been paid and the
26 balance is due by the end of 1964.

27 The IDA was established as an additional
28 instrument to promote economic development by providing
29 finance on terms more flexible and bearing less heavily
30 on the balance of payments of the recipient countries



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Unlike the IBRD, the IFC has not sought to raise funds through public sales of its obligations although it is empowered to do so under its Articles of Agreement. Consequently, the IFC has not borrowed funds on the Canadian securities markets.

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2 In a growing number of developing countries,
3 the need for, and the ability to make effective use of,
4 outside capital is increasing faster than the ability
5 to service conventional loans; some countries have
6 already begun to draw close to the limit of the debt
7 they can prudently assume on conventional terms. These
8 considerations prompted the establishment of IDA which
9 is designed to further the development objectives and
10 supplement the activities of the IBRD.

11 A considerable degree of flexibility is given
12 to IDA by its Articles of Agreement, both in the
13 purposes for which it may provide finance and in the
14 terms on which it may make loans. The liberality of
15 IDA terms is illustrated by the IDA's record during
16 the first eight months of operations, ending June 30,
17 1961. IDA extended development credits totalling
18 \$101 million in four countries. Each of these credits
19 is for 50 years, without interest. Three of these
20 credits were for highway development in Honduras,
21 Chile, and India and the fourth to finance, jointly
22 with the IBRD and with additional assistance from the
23 German Government, the Roseires Dam project in the
24 Sudan.

25 The Articles of Agreement provide that the
26 Association shall review the adequacy of the resources
27 at such time as it deems appropriate and at intervals
28 of 5 years, if it deems necessary, authorize an
29 increase in subscriptions. Such a review is now in
30 progress.



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1 Membership in IDA is open only to members of
2 the IBRD, and each member is represented by the same
3 Governor and Alternate Governor in the two institutions.
4 The Executive Directors of the IBRD serve ex officio
5 as the Executive Directors of the IDA.

6
7 4. The International Monetary Fund

8 The International Monetary Fund (IMF) was
9 created after the war for the purpose of promoting the
10 establishment of a multilateral system of payments in
11 respect of current transactions and the elimination of
12 foreign exchange restrictions which hamper the growth
13 of world trade. The Fund seeks to ensure exchange
14 stability, to maintain orderly exchange arrangements
15 among members and to avoid competitive exchange de-
16 preciation. The resources of the Fund are made
17 available, under adequate safeguards, to members
18 experiencing balance of payments difficulties in order
19 to provide them with an opportunity to correct such
20 maladjustments without resorting to measures inimical
21 to national or international prosperity.

22 Each member of the Fund has a quota, and
23 subscriptions to the Fund are equal to quotas.
24 Subscriptions are payable partly in gold (normally 25
25 per cent) and partly in the member's own currency.
26 Quotas and subscriptions of the 82 members of the Fund
27 totalled about U.S. \$15.2 billion as of September 30,
28 1962. By that date, member countries had drawn a
29 cumulative total of U.S. \$6.7 billion from the Fund.
30 Of this amount, U.S. \$5.0 billion had been repaid.



James G. Thompson

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Quotas are the basis for deciding each member's access to the Fund's resources. The Fund's articles provide that a member may draw on the Fund's resources provided that the Fund's holdings of the member's currency do not increase by more than 25 per cent in any 12-month period nor exceed 200 per cent of its quota. The 200 per cent of quota limitation has never been waived, but since 1953 most drawings have been larger than 25 per cent of the member's quota. Quotas also determine a member's voting power in the Fund.

In addition to the resources available to the Fund from the subscriptions of its members, the main industrial countries including Canada agreed in 1962 to stand ready to lend their currencies to the Fund up to a sum equivalent to U.S. \$6 billion when the Fund and these countries consider that supplementary resources are needed to forestall or cope with an impairment of the International Monetary system. Canada's maximum commitment under this arrangement will be U.S. \$200 million. No use has yet been made of this facility.

Canada's initial quota and subscription to the Fund in 1946 was \$300 million in U.S. currency. Of this, U.S. \$75 million was paid in gold and the equivalent of U.S. \$225 million in Canadian currency. In 1959 agreement was reached on a general increase of 50 per cent in quotas for all members of the Fund, as well as on special additional increases for Canada, Japan and Germany. As a result, Canada's quota

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1 increased from U.S. \$300 million to U.S. \$550 million.
2 Twenty-five per cent of the increase in the Canadian
3 quota was paid in gold (U.S. \$62.5 million) and 75 per
4 cent in Canadian currency. Thus to date Canada's
5 contribution to the resources of the Fund has amounted
6 to U.S. \$137.5 million in gold and the equivalent of
7 U.S. \$412.5 million in Canadian currency.

8 The Fund's articles provide that the part of
9 a member's quota which is payable in the member's
10 currency, and which the Fund does not need for its
11 operations, can be deposited in the form of non-
12 interest bearing non-negotiable demand notes which the
13 Fund can cash whenever it needs the money. Nearly the
14 entire amount of the currency portion of Canada's sub-
15 scription to the Fund has been paid in the form of
16 such notes lodged with the Bank of Canada as fiscal
17 agent for the Fund in this country.

18 To date the Fund has lent the equivalent of
19 U.S. \$100 million in Canadian currency to the following
20 three countries: United Arab Republic (\$15 million
21 in 1956); Australia (\$10 million in 1961); United
22 Kingdom (\$75 million in 1961). Of this total, the
23 Fund obtained the equivalent of U.S. \$25 million
24 in Canadian currency through the sale of gold and
25 the balance from Canada's subscription. By
26 September 30, 1962, repayments to the Fund in
27 Canadian dollars amounted to the equivalent of
28 U.S. \$50.7 million. Canada drew the equivalent
29 of U.S. \$300 million from the Fund in June, 1962.
30 This amount remains outstanding as of October 31, 1962.



This amount remains outstanding as of October 31, 1962. U.S. \$700 million from the Fund in June, 1962. U.S. \$20.7 million. Canada drew the equivalent of Canadian dollars amounted to the equivalent of September 30, 1962, repayments to the Fund in the balance from Canada's subscription. By in Canadian currency through the sale of gold and Fund obtained the equivalent of U.S. \$25 million Kingdom (\$75 million in 1961). Of this total, the in 1956; Australia (\$10 million in 1961; United U.S. \$100 million in Canadian currency to the following To date the Fund has lent the equivalent of agent for the Fund in this country. such notes lodged with the Bank of Canada as fiscal subscription to the Fund has been paid in the form of entire amount of the currency portion of Canada's subscription. Nearly the Fund can cash whenever it needs the money. Interest bearing non-negotiable demand notes which the operations, can be deposited in the form of non-currency, and which the Fund does not need for its a member's quota which is payable in the member's The Fund's articles provide that the part of to U.S. \$127.5 million in gold and the equivalent of contribution to the resources of the Fund has amounted cent in Canadian currency. Thus to date Canada's quota was paid in gold (U.S. \$22.5 million) and 75 per

1 The highest authority of the Fund is a
2 Board of Governors, one Governor representing each
3 member country. Most of the Fund's decisions are
4 made by the Board of Executive Directors, of whom
5 five are appointed by the five members having the
6 largest quotas and 13 are elected by the other
7 member countries. The IMF Governor, Executive
8 Director and Alternate Executive Director for Canada
9 are the same as those for the IBRD.

10
11 5. Organization for Economic Co-operation and Development

12 The Organization for Economic Co-operation
13 and Development came into existence on September 30,
14 1961 upon ratification of the convention establishing
15 it, that was negotiated during 1960. The Organization
16 is a successor to the former Organization for European
17 Economic Co-operation, having broader objectives than
18 the OEEC and including as full members the United
19 States and Canada in addition to eighteen countries
20 of Western Europe. The objectives of the Organization
21 as provided in the convention are to promote policies
22 designed to achieve the highest sustainable rate of
23 economic growth in member countries while maintaining
24 financial stability; to contribute to the economic
25 development of less-developed member and non-
26 member countries; and to contribute to the expansion
27 of world trade on a multilateral, non-discriminatory
28 basis.

29 The central authority of this Organization
30 rests with the Council, meeting either in sessions of

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1 Permanent Representatives or of Ministers. At
2 ministerial sessions of the Council, Canada is
3 represented by a Cabinet Minister. At the inaugural
4 session of the Council in the Autumn of 1961, the
5 Honourable Donald M. Fleming was elected Chairman of
6 the Council of Ministers for 1962.

7 At the official level the primary policy
8 responsibility of the Department of Finance in
9 relation to the Organization is that of providing
10 Canadian representation at meetings of the Economic
11 Policy Committee and its Working Parties and of
12 directing the development of advice on the Canadian
13 position on subjects under discussion in these groups.

14 The Economic Policy Committee is a plenary
15 committee of the Organization composed of senior
16 officials having important responsibility for advising
17 their respective Governments on matters of general
18 economic policies. It meets three to four times each
19 year to review the economic and financial situation of
20 member countries with a view to furthering the
21 objectives of the Organization, with special emphasis
22 on the international effects of national economic and
23 financial policies. Canada is normally represented
24 on this group by an Assistant Deputy Minister of
25 Finance, usually accompanied by a senior official of
26 the Bank of Canada and members of the Permanent
27 Delegation in Paris.

28 To assist in the fulfillment of its mandate,
29 the Economic Policy Committee has set up two Working
30 Parties for the detailed consideration of the economic



1 growth of member countries and of the international
2 balance of payments equilibrium. The former group,
3 which has been meeting at approximately two-month
4 intervals, is concerned with analysing the growth
5 experience of member countries and considering the
6 policies appropriate to the encouragement of future
7 growth. The latter Working Party, which also meets
8 about every two months, studies the effects on inter-
9 national payments of monetary, fiscal and other
10 economic policy measures of member countries.
11 Senior officials of the Department of Finance
12 represent Canada on both these groups, in collaboration
13 with officials from the Bank of Canada.

14 The Department of Finance also has primary
15 responsibility for Canadian participation in the work
16 of the Development Assistance Committee. This
17 Committee serves as a vehicle for consultation
18 among the main donor countries who are members of
19 the Organization concerning capital aid and technical
20 assistance programmes for countries in the process
21 of economic development. A senior official of
22 the Department leads the Canadian delegations to
23 the periodic plenary sessions of the Committee.

24 In several of the other Committees of the
25 Organization, this Department acts as the main co-
26 ordinating authority for interdepartmental con-
27 sideration of advice on the position to be taken by
28 Canada on the matters under discussion. This
29 applies to the Budget Committee in its consideration
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1 problems of the Organization; the Fiscal Committee,
2 in which member countries consult on development of
3 more compatible national taxation structures,
4 particularly in the field of prevention of double
5 taxation; and the Committees for Payments and
6 Invisible Transactions, which carry out the respon-
7 sibilities of the Organization in relation to the
8 OECD Codes of Invisible Transactions and Capital
9 Movements.

10 Finally, the Department also participates
11 in other aspects of the work of the Organization, e.g.
12 the Trade Committee, and the Economic and Development
13 Review Committee, and from time to time provides
14 representatives (together with officials from other
15 Departments) at meetings of such committees.

16
17 6. United Nations and its Specialized Agencies

18 As a member of the United Nations and its
19 eleven Specialized Agencies Canada is required to
20 pay an assessed share of the cost of administering
21 each of these Organizations. Canada also makes
22 contributions to a number of "emergency" programmes
23 financed either by special "operation" assessments
24 or by voluntary contributions.

25 The total cost of administering United
26 Nations and its Specialized Agencies has grown
27 steadily in recent years and in 1962 will be about
28 \$152 million, of which the Canadian assessed share is
29 \$5.6 million. Canadian contributions to special
30 programmes (including the United Nations Emergency



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1 Force, United Nations Special Fund, United Nations
2 Children's Fund, Palestine refugees, etc.) will amount
3 to about \$7 million in 1962. Canada has also made a
4 pledge to purchase \$6.24 million of United Nations
5 bonds to help to strengthen the Organization's
6 financial position.

7 The administrative expenditures of these
8 Organizations are provided in budgets voted annually
9 by the General Conference of each Organization.
10 In order to enable delegations representing Canada
11 at these Conferences to participate effectively in
12 examination of their expenditure programmes the
13 Department of Finance scrutinizes each programme and
14 provides guidance designed to improve efficiency and
15 co-ordination and eliminate waste and extravagance.
16 From time to time officials of the Department are
17 also required to participate as members of delegations
18 or advisers. The United Nations has also established
19 two expert standing committees to provide financial
20 advice to the General Assembly.

21
22 7. Tax Relations with Other National Governments

23 The Minister of Finance is responsible for
24 tax policy in the international sphere as in the
25 domestic, and hence is responsible for the
26 conclusion of tax agreements with other governments.
27 This work is, of course, undertaken in conjunction
28 with the Minister of National Revenue who administers
29 the provisions of the tax agreements, and the
30 Secretary of State for External Affairs who is



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1 responsible for international agreements. The
2 prime purposes of tax agreements are to avoid both
3 double taxation and fiscal evasion. These agreements
4 are also generally conducive to instilling confidence
5 in foreign investors, and in particular they afford
6 protection for business interests in such matters
7 as the binding of withholding tax rates, agreed
8 rules of allocation of business income and tax
9 freedom for visiting executives and technicians.
10 They help to assure equitable tax treatment to
11 foreign investors in Canada and to Canadian
12 residents and domiciliaries who have sources of
13 external income.

14 The Government of Canada has an obligation
15 to encourage the conclusion of bilateral tax
16 agreements in that it has subscribed, both on its
17 own account and as a member of such international
18 organizations as the United Nations and the
19 Organization for Economic Co-operation and
20 Development, to the principle that international
21 double taxation should be avoided and fiscal
22 evasion prevented.

23 Problems of double taxation and fiscal
24 evasion are most likely to arise where relations
25 between Canada and the other country concerned are
26 close and extensive. It is natural therefore that
27 Canada's tax agreements have been made with its
28 main trading and political partners in the
29 Commonwealth and Europe and with the United States.
30 Canadian tax agreements presently in force consist



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1 of comprehensive income tax agreements with 12
2 countries, comprehensive death duty agreements
3 with 5 countries, and agreements limited to the
4 avoidance of double taxation of profits from
5 shipping operations or aircraft operations or both,
6 with 6 countries. The Income Tax Agreement with the
7 United Kingdom has been extended to 29 colonies and
8 protectorates, some of which have since become
9 independent countries.

10 Although the Government of Canada has
11 welcomed proposals for concluding tax agreements,
12 it has not usually taken the initiative in making
13 such proposals. The main reason for this is that
14 its domestic income tax law has itself for many
15 years provided a significant measure of relief
16 from double taxation for Canadian residents.
17 Indeed Canadian tax agreements may be regarded in
18 large part as a codification of the provisions
19 of domestic law dealing with the relief of double
20 taxation. In addition the Canadian economic and
21 fiscal environment has been sufficiently favourable
22 to non-residents carrying on business or making
23 investments here as not to make vital the special
24 protection afforded by a tax agreement.

25 Tax problems sometimes arise in regard
26 to the property or personnel of other governments.
27 A question may arise, for example, about the tax
28 treatment of property purchased for use in
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undertaking such as the deepening of the
St. Lawrence waterway system. Or a diplomat may
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The tax status of diplomats, counsuls and military
personnel of foreign governments may be the subject
of a multilateral convention negotiated under the
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members of the Canadian public service who are
serving abroad, or Canadian Government property
held abroad must also be studied from time to time.
All such matters come within the purview of the
Taxation Division of the Department of Finance.

8. Tax Problems resulting from Membership in
International Organizations

The charters of international organ-
izations such as the United Nations generally provide
that the organization shall enjoy in the territory
of each of its member countries such privileges and
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as are necessary for the fulfillment of its purposes,
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1 these privileges and immunities it is necessary for
2 the Department of Finance to study their tax
3 implications. An important aspect of this study
4 concerns the possible effect of the convention in
5 question on the taxing jurisdictions of provincial
6 and municipal governments. Another concerns the
7 question of excluding from the privileges and
8 immunities granted, Canadian citizens who are
9 ordinarily resident or domiciled in Canada.

10 Unless the organization's headquarters
11 are located in Canada there will not be many occasions
12 in practice when privileges and immunities will have
13 to be granted. Such occasions might be, for example,
14 when an organization holds sessions in Canada, or
15 appoints representatives or establishes branch
16 offices in Canada, or invests assets in Canada.
17 When an organization establishes, or is likely to
18 establish, its headquarters in Canada, as the
19 International Civil Aviation Organization has
20 done, it is necessary not only to scrutinize the
21 convention but eventually to consider in more detail
22 the extent to which and the manner in which
23 privileges and immunities are to be granted. It
24 may also be necessary to amend the taxing statutes.

25 Certain tax privileges and immunities may
26 also be required for visiting military forces and
27 their individual members. These now fall mainly
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29 Atlantic Treaty) Act but may come within the provisions
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A 162

1 countries such as The Visiting Forces (British
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3 Act, 1941.



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